		QQQQ Pricing	Ravi			January 31, 2006, 03:30:16 PM by Ri$k Doctor
		Imp. Volat.	meyer99			January 24, 2006, 10:46:16 AM by Ri$k Doctor
		wide bid/ask spreads	ohlala			January 23, 2006, 12:28:51 PM by Ri$k Doctor
		Parity & which Spread to use	pjs			January 23, 2006, 11:59:32 AM by Ri$k Doctor
		PAIRS TRADING OF COMMODITIES & CURRENCIES	Murph			January 10, 2006, 09:41:59 AM by Ri$k Doctor
		ABGX	mark-fl			December 19, 2005, 10:15:15 AM by Ri$k Doctor
		Calendar adjustment/close	SpecialK			December 11, 2005, 05:04:03 PM by Ri$k Doctor
		The Stealth Bomber	Chuck			November 25, 2005, 10:18:56 AM by Ri$k Doctor
		Weeklys	888			November 22, 2005, 11:55:34 AM by Ri$k Doctor
		Net change in premium	ohlala			November 08, 2005, 06:51:06 PM by Ri$k Doctor
		RFX conversion	888			November 02, 2005, 08:37:50 AM by Ri$k Doctor
		Optimizing dilemma...	Bengt			September 27, 2005, 08:21:32 AM by
		Fishing!	Bengt			September 19, 2005, 07:56:09 AM by Ri$k Doctor
		To exercise or not	ohlala			September 18, 2005, 06:19:23 PM by Ri$k Doctor
		Otpimizing	Bengt			September 16, 2005, 06:47:05 AM by Ri$k Doctor
		Selling premium	Bengt			September 12, 2005, 05:51:54 AM by Ri$k Doctor
		Checklist	Bengt			September 08, 2005, 10:27:35 AM by Ri$k Doctor
		Options Literature	Bengt			August 30, 2005, 10:30:33 AM by Ri$k Doctor
		NOKIA	Ri$k Doctor			August 30, 2005, 10:28:10 AM by Ri$k Doctor
		Volatility and Pricing	Bengt			August 30, 2005, 10:14:07 AM by Ri$k Doctor

Ri$k Doctor Forums

Ravi
RD3
Newbie

QQQQ Pricing

« **on:** January 31, 2006, 08:38:51 AM »

Hi Charles

I was looking at the QQQQs, on which I am currently bullish.

I noticed the Feb 41/42 call vertical is priced at almost exactly the same as the Mar 41/42 call vertical. In my mind, the Feb vertical should be more expensive than the Mar vertical.

QQQQ NASDAQ-100 INDEX TRACKING STOCK Easy to Borrow NASDAQ Open Interest Delta 7

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
41.87 Q	-.32	41.87 Q	41.88 C	280 x 3160	17,503,638	42.14	42.19	41.81

TRADE GRID

OPTIONS Vertical Exchange Composite

CALLS					PUTS			
OPEN.INT	DELTA	BID X	ASK X	STRIKE	BID X	ASK X	OPEN.INT	DELTA
FEB 06 (17) 100								17.36%
4,897	.06	.80	1.05	38 / 39	0	.10	14,012	-.05
4,897	.06	.85	1.05	39 / 40	0	.10	50,895	-.06
21,737	.15	.75	.85	40 / 41	.15	.25	136,846	-.16
62,138	.22	.60	.70	41 / 42	.30	.40	206,358	-.22
199,439	.22	.30	.40	42 / 43	.55	.70	152,575	-.25
71,062	.17	.15	.25	43 / 44	.75	.95	11,208	-.17
51,746	.07	0	.10	44 / 45	.90	1.10	1,809	-.01
MAR 06 (45) 100								16.93%
11,814	.05	.70	1.10	38 / 39	.05	.15	46,904	-.06
13,462	.07	.75	1.00	39 / 40	.10	.20	78,229	-.08
37,851	.11	.70	.80	40 / 41	.15	.30	95,114	-.11
78,176	.14	.55	.70	41 / 42	.30	.45	83,512	-.15
49,846	.15	.35	.50	42 / 43	.50	.60	32,475	-.17
40,016	.15	.25	.40	43 / 44	.65	.80	8,320	-.16
40,016	.11	.10	.25	44 / 45	.80	1.00	2,112	-.11

Is this an example of mispricing, where I could buy one vertical and sell the other, i.e. buy Feb 41/42 and sell Mar 41/42?

Kind regards

Ravi

Ri$k Doctor
Administrator
Hero Member

QQQQ Pricing

« **Reply #1 on:** January 31, 2006, 03:30:16 PM »

No for 2 reasons.

1) You cannot really buy the FEB lower and what you can sell MAR for. I am sure that all the close-to-the-money options are trading .05 wide but you have captured a moment when something happened to displaying .10 wide on one of the MAR options involved, distorting the real picture.
2) What would you be playing for? You would have a long calendar at the high strikes and a short calendar at the lower strikes. That position would thrive if the market stays around the higher strike. Also the FEB is more sensitive and that spread on a drop would lose faster than the MAR.
You would have to be playing for that market opinion.

meyer99
Newbie

Imp. Volat.
« **on:** January 15, 2006, 03:19:24 PM »

When analyzing spreads shall I look at the individual legs IV or at the spread's IV?
How is the spread's IV calculated: a)IV of leg A minus IV of leg B, b) (IV of A + IV of B)/2, or c) different way.

ohlala
Newbie
Posts: 36

Imp. Volat.
« **Reply #1 on:** January 16, 2006, 05:23:16 PM »

HI meyer99,
When analysing spreads you want to concentrate on the "Spreads" sensitivity to IV which is "Vega". Analysing the individual Vega risk can get quite complex without the need to.
The IV of an option is implying a certain volatility in the underlying over a certain period of time.
The spreads sensitivity to IV, Vega is calculated by subtracting one leg from the other, you can see for your self this calculation if your using TOS. I'm guessing the IV can be calculated the same way, but is not such a great priority in spreads as one cancels out the other (not true for straddles, strangles, where the vega risk doubles).
Hope this helps,
Sathya

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

Imp. Volat.
« **Reply #2 on:** January 23, 2006, 12:12:10 PM »

I never have found that the IV of a spread was a useful thing (if you can even get a true calculation). I agree with ohlala that, in the end, it is rather about whether long or short vega at the general IV level as compared to the hisotrical implied volatlity for decisions about initiating, maintaining or liquidating a trade.

CoachPhil
Jr. Member
Posts: 72

Imp. Volat.
« **Reply #3 on:** January 24, 2006, 10:05:55 AM »

I take the similar position that the IV of the spread and its effects (vega) are significantly reduced in most spreads.

As an example, I did a test case on the credit spreads I sell against the SPX. I took a deep OTM spread and using a pricing calculator I increased the IV of the legs by 20% and 50% and the overall value of the spread increased by anywhere from $0.05 to $0.20 which was quite small given the extreme swings I tested on IV.

For my credit spreads, delta and gamma were the real dangerous culprits.

So when trading any spread, best thing for learning is to stress test the different Greeks to see where your real friend and enemy is. With my credit spreads theta is my friend and detla/gamme is my enemy. This is important to know so you hedge better and also are aware of the risks before going in.

If you put the legs of a FLY in a pricing calculator and adjust IV and stock price and time independently, you will see what helps or hurts your position and how.

Coach Phil

Ri$k Doctor
Administrator
Hero Member

Imp. Volat.
« **Reply #4 on:** January 24, 2006, 10:46:16 AM »

Ditto

ohlala
Newbie

wide bid/ask spreads
« **on:** December 15, 2005, 08:04:28 PM »

Hi Charles and all,
I??ve noticed that the higher priced stocks had quite a significant bid/ask spreads in their options. Is there a way to guesstimate or calculate a fair value for the individual options or spreads based on bid/ask spread on the stock (as that's what the MM's base the options bid/ask spread on).
eg. CME: 366.10-367.00

Calls	Strike	Puts
12.30-12.70	**380**	23.10-23.90

Based on the equation K+C = U+P+I-D (Interest rate 3.84%),
The calculated bid/ask spread for the 380 call works out to be 10.67-11.50. It??s well off the quoted spread. Is this the correct way to go about it? If so why are the values so far off the current quotes?

Can always find the middle of the spread and deduct a dime or two off but what??s the reality about getting filled if the spread is much wider (say on a $300 stock), where as on a cheaper stock (say $30 stock) its more realistic to get filled a dime away from the mid value of the spread.
I think that you mentioned somewhere that a $300 stock is just a $30 stock reverse split 10:1, so does the bid/ask spreads reflect this and are hence so wide? If the bid/ask spread on the stock is quite narrow why are the options spread quite wide? Are the MM??s increasing the spread because they can? Is there a way like "the tail wagging the dog" to estimate a fair value within the extremes and be filled immediately?

What's the incentive for the options trader to play CME or other very high priced stocks, when when they are off to a huge intial disadvantage? Take the CME Jan ATM 360/370/380 call fly: bid/ask -.20-2.00. Although the Risk to Reward may be good I could find a similar R2R on a different stock which has less slippage.

Have a Merry Christmas and Happy New Year,
Sathya

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

wide bid/ask spreads
« **Reply #1 on:** December 18, 2005, 09:39:38 PM »

How did you extract the prices because the averages between the bid and ask using the stock price of 369.01 puts the conversion at a(1.29 credit) just .11 away from what it is worth:(1.40 credit) as oppsed to your(2.45 credit).

35 days to Go	Conversion (S+P+I)-(C+K)	Call	StriKe	vs.	Stock	Put	Interest
		12.50	380.00	vs.	366.55	23.50	1.40
Your Numbers	(2.45)	392.50		vs.	390.05		
		12.20	380.00	vs.	369.01	21.90	1.40
Averages at 12/16 Close	(1.29)	392.20		vs.	390.91		

Excellent explanation about the reverse stock split and I would add that, in effect, the 1.00 wide spread in the ATM call of a $370.00 stock equates to .10 wide in a $37.00 stock.

The butterfly is a different story. It has virtually no Delta, Gamma, Vega or Theta and the average between -.20 and 2.00 is 90. That is what the MMs value you it at approximately so the inside market should be no wider than .65-1.15 and more likely .75-1.05.

ohlala

wide bid/ask spreads

« **Reply #2 on:** December 19, 2005, 02:03:59 PM »

Hi Charles,

I think the values that I got are erroneous, especially the stock value. Some further questions though:

I just went over one of the RD2 classes and found mostly what I looking for, but just need some further clarification,

So when your calculating an entry price it doesn??t matter how many legs you have and the bid/ask spread on those legs but just based on the delta of the final position?

So if the delta of the fly was -10 and the spread on the fly was 2.00-3.00 and the spread on the naked option which had a delta ~ -10 is .10-.20 you can expect to get filled on the fly about 0.10 to 0.15 above/below the mid value of the fly (when going long: at 2.60-2.65)?

You pointed out that (in the RD2 class) if the underlying is $0.10 wide and the spread has a delta of 6, the MM should have a theoretical edge if he creates the options spread a little bit wider than 6% of the dime wide stock spread. Could you explain this a bit further its failing to register at this point in time.

Also in the same RD2 session, it was pointed out the width for a deep ITM option is very wide because of the huge delta and the risk associated with the purchase of shares of stock that equal the delta of the option. What??s the huge risk? Is it the fact that the MM will have to hedge with an increased number of shares and insures himself by widening the spread in the options market?

How does the MM loose? He hedges his position so where??s his exposure? Does he continually have to adjust is inventory to be delta neutral?

When increasing the number of contracts for a spread, be it a vertical or fly, the delta increases to be ~100, so now it??s a similar delta situation to a single deep ITM option that has a delta of 100. Can you still enter the fly with the same narrow spread as if you were entering only a single contract and expect to get filled or does the bid/ask spread widen according to the delta risk? With a delta greater than 100 for a position how do you then estimate a fair value?

Thanx,
Sathya

Ri$k Doctor
Administrator
Hero Member

wide bid/ask spreads

« **Reply #3 on:** December 22, 2005, 08:52:00 PM »

You said: "...when your calculating an entry price ..."
It is based on the fair value(middles or averages) of all the components involved.

If a Fly is 2.00-3.00 then the middle is 2.50, correct, I would try to buy it at a little more like 2.60 or 2.65 and the delta has being so small indicates that the MM won't be at much risk if he misses his hedge by a little bit. He or she can afford to have a tighter market.

Please point out where I said: "...if the underlying is $0.10 wide and the spread has a delta of 6, the MM should have a theoretical edge if he creates the options spread a little bit wider than 6% of the dime wide stock spread." I cannot recall exactly where that is and wanted to get the proper context of the conversation, please.

With regard to "...MM will have to hedge with an increased number of shares and insures himself by widening the spread in the options market...", Yes but also because the MM desires to make it wider.

MMs continue to adjust and delta hedge. They lose when loaded up one way or the other with long or short premium and the market does the opposite. MMs also battle with skew and getting too many options at a strike that is pinned or a surprise move.

A crowd of MMs are usually good for a few hundred flies to buy or sell and the delta per spread will dictate how many each individual MM will take from the order. Each bites off what they can chew or what fits their position. Figure the delta per spread when trying to motivate the other side, not the trotal delta of the complete size.

ohlala
Newbie

wide bid/ask spreads
« **Reply #4 on:** December 23, 2005, 05:41:26 PM »

The RD2 recording is: Session 209, Date: 06/28/05
Download: RD2_20050628.rar, Subject: RD2 session 9 Verticals continued.
The topic is being discussed between the timeframe of 22:00-22:30

You wrote: A crowd of MMs are usually good for a few hundred flies to buy or sell and the delta per spread will dictate how many each individual MM will take from the order. Each bites off what they can chew or what fits their position

When you have a bunch of fly??s or verticals which have a high cumulative delta (greater than 100) it seems to be the same delta situation as a single ITM option? Is it the fact that a big order isn??t filled by one MM and therefore they pick how much they want and spread the delta risk among them (but can??t do the same with a single ITM option?) Saying that, If a fly had a initial delta of 10, it would take only 10 contracts to reach a 100 deltas, so is it still the same principle as above?
With the MM??s biting of what they can chew or fits their position, with a big order are the chances of getting filled less than a smaller order? Also are their situations where only a certain portion of the order gets filled as a MM wants only a certain number of contracts while the others can??t get filled?

So bottom Line: When looking at a fair realistic value to get filled at, compare the bid/ask spreads for similar deltas (be it a two legged or 4 legged spread) and put in an offer based on those values?
Ok, if my understanding of the above method is right(please correct if not) this leads me to proceed one step further determining based on the spread of the stock at what options value will the MM have a theoretical edge(wont necessarily get filled at those values, but we now know better how the pricing works). That was the question I had based on the recording in which you stated ??if the underlying is $0.10 wide and the spread has a delta of 6, the MM should have a theoretical edge if he creates the options spread a little bit wider than 6% of the dime wide stock spread."

Look forward to your feedback

ohlala
Newbie

wide bid/ask spreads
« **Reply #5 on:** December 30, 2005, 06:32:57 PM »

Hi Charles and all,

I've finally started trading for real '>, yey....One thing I noticed while waiting to get filled on my fly, (AHC 120-130-140 fly)... the stock meandered between 128.89-125.1, a range of 3.77. The mid value of the fly fluctuated between 2.15-2.45. The delta of the fly was ~.01/contract. I put in a bid at 2.2 but didint get filled, I later cancelled it and increased the bid to 2.3 when the mid-value was at 2.25 and got filled almost instantenously. My Question is: with the delta so low why was the variation of the mid value of the fly ~$0.30. Based on the max range of the stock times the delta, the move should have been more like $0.03. I'm aware that the options value don't trade in penny increments but even if were based on a nickel increment, maybe the range should have been ~$0.10. I'm not looking to find an exact correlation between the delta and the move in the "real" options price, but trying to get further insights into how the MM's or their software is programmed to price the options and whether to expect a certain price.
Thanx and best wishes for a Happy New Year,
Sathya

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

wide bid/ask spreads
« **Reply #6 on:** January 23, 2006, 12:28:51 PM »

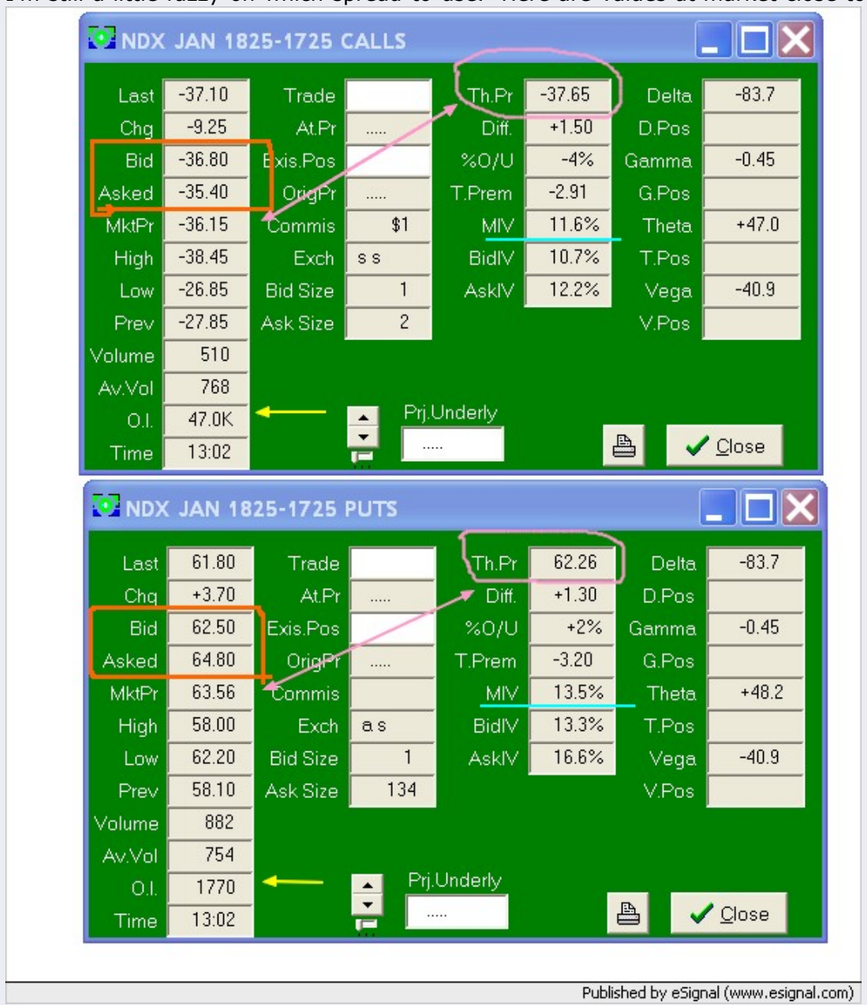
The individual options are .15 to .20 wide so while one updates, the midvalue fluctuates even though the delta of .01 per spread shows very little sensitivity. In actuality, the theoretical value of that particular butterfly did not change very much at all. The individual options do not all update t the exact moment and creates the illusion that the butterfly is in a fast market.

pjs
RDCC

Parity & which Spread to use

« **on:** January 11, 2006, 06:27:42 PM »

I'm still a little fuzzy on which spread to use. Here are values at market close today.



If I buy the puts to create a 100 pt box (see NDX discussion) they seem overpiced based on Mid IV and/or Theoretical price. On the other hand the Call spread seems under priced using those metrics. As you noted in todays class the OI is much better on the call vertical and the bid/ask spread is smaller at 1.50 vs. 2.30 on the puts. But the mid prices seem to be pretty close to parity. So wouldn't the P/L be about the same assuming fills at the mid?
Also, is there any carry on NDX options?

tharma raj

Parity & which Spread to use

« **Reply #1 on:** January 12, 2006, 02:57:48 AM »

Hi pjs,

I have not checked it but if you get fills in the middle and if the middle equates to the same price then yes you would think that the call vertical would be no better or worse than the put vertical right? In reality given that OI is higher on the call side more liquidity tends to translate to better fill prices.

Tharma

Ri$k Doctor

Parity & which Spread to use

« **Reply #2 on:** January 23, 2006, 11:59:32 AM »

I agree with tharma raj's comment. The TV is according to a flat IV (no skew). Those OTM expiring calls are distorting reality because they are really high on the skew.

The 1825 calls (tail that wags the dog) will be an easier trade than the 1825 puts (the dog being wagged by the tail).

Bottom line is that the 1725 call is the ITM option that you must trade to capture the value (the OTM put of the same strike is not enough without the 1825 put that is at a disadvantage to trade because of its ITM amount and wide bid and ask.

Murph
Moderator
Jr. Member

PAIRS TRADING OF COMMODITIES & CURRENCIES

« **on:** January 09, 2006, 09:15:59 PM »

Hi Chalres and RD3ers,

Concerning pairs trading, I'm looking into commodities pairs or possibly a + skew commodity vs. a negative skew index. Maybe an Australian market index (?negative skew?) or currency since the Australian currency is correlated to certain commodities. I haven't looked into currency skews if such a thing exists. It seems to me to be a potentially lucrative technique for trading with reduced or "hedged" risk. I believe some commodities have + skews, others negative and still others such as gold combined + & - skews. It seems like a potentially good setup for pairs trading. Has anyone done this in the past? I recently read an article describing how spread trading between futures markets shows a steeper trending chart than the trending markets themselves and does so with reduced risk. So I think this is an interesting avenue for further investigation.

I'd appreciate any comments? Thanks.
Murph

Ri$k Doctor
Administrator
Hero Member

PAIRS TRADING OF COMMODITIES & CURRENCIES

« **Reply #1 on:** January 10, 2006, 09:41:59 AM »

Currencies and Commodities have what I call a demand shaped skew in that the hedging community applies uppward pressure on the IVs of high(er than the ATM) strikes and downward pressure on the low(er than the ATM) strikes. We understand that the opposite is true in index, equities and financial instruments because there is huge supply of stocks and bonds causeing the heging to be on the downside, pumping up the low strike for insurance and hammering the high strikes for income enhancement.

The Austrailian Dollar along with Austrailian Commodities increases the cost of OTM calls. Niether skew is going to correct except when getting to extremes because the general skew shapes belong the way of the hedging.

When buying an Austrailian Commodity you incurr the currency exposure just the same as Non-US investors buying US Soybeans or Dollar Denominated Gold. Best to be playing for that (the currency move) as well.

Those who do not wish to have the currency exposure can isolate that and hedge it, allowing for a more pure play on the commodity itself.

The commodities may have a high correlation but how much of it happens to be because of a cincidntal move in the currency. Is it really a currency play?
For example: Is Gold's rally from $400 to $480 really the Euro's rally from 100 to 120?

Bottom line regarding highly correlated commodity pairs:
Aussy crops to Aussy crops are OK.
US crops to US Crops are OK
US Crops to Aussy Crops would also be playing the Dollars against each other.

mark-fl
Newbie

ABGX
« **on:** December 17, 2005, 10:58:35 PM »

I had 10 contacts of a call credit diag. spread - December 15/April 17.50. I checked with my broker and since I had enough margin to cover being assigned short stock, I did nothing on Friday. Question:
1. Is the stock expected to go up to $22.50 (the price AMGN agreed to pay)? If so, why is it going down a little?
2. What is my best strategy to adjust this position?

Thanks,

Mark

Ri$k Doctor
Administrator
Hero Member

ABGX
« **Reply #1 on:** December 18, 2005, 09:49:56 PM »

Not to worry. The call should not be assigned until expiration or the deal date.

If you are assigned, the natural tendency is to exercise your 17.50 call to make the stock go away manifesting a 2.50 debit to buy back your call diagonal. This however, would be a mistake because the call is not worth ecercising unless it is trading parity.

The call should not trade at parity unless the stock becomes hard to borrow, the deal date comes along or there is a dividend that is greater than the 17.50 put plus the carry cost of the stock.

The call's extrinsic value is equal to the carry difference in the stock and call price plus whatever extrinsic value is left in the put.

Incidentally, upon assignment you will be long the APR 17.50 Put and that would be a good thing in the unlikely event that the deal is called off, you might have a chance to get some money back.

For now, consider yourself out of the position because the put is only trading for like .25.

mark-fl
Newbie

ABGX
« **Reply #2 on:** December 19, 2005, 08:00:51 AM »

I was assigned short stock at $15.00. The price is currently $21.60. I could close my short, keeping the long calls, waiting until the buy out at $22.50. This would reduce my loss by $1,000. What do you think? If that seems reasonable, should I buy a put to protect my downside? If so, which one? Do you have any idea how long the buyout will take?

Ri$k Doctor
Administrator
Hero Member

ABGX
« **Reply #3 on:** December 19, 2005, 10:15:15 AM »

OK, upon the assignment you are long the APR 17.50 puts synthetically and that is only good if the deal falls through. It seems that there is uncertainty about whether the deal will be accepted by shareholders.

What you are witnessing is the probability that the deal will not go through.

For the particulars on when the deal date is expected and whether or not it will go through is something you need to talk to your broker about or check out the opinions on message boards.

Some people wanting to keep to reduce their margin burden but keep the APR 17.50 Put aspect would trade the conversion and it looks to be trading pretty fair:

123 days to Go		Call	StriKe	vs.	Stock	Put	Interest
3.84% Interest							
		4.55	17.50	vs.	21.55	0.30	0.10
Averages at 12/16 Close			22.05	vs.		21.85	
Conversion	(S+P+I)-(C+K)			(0.20)			

Since you are bullish, you may want to cover the stock but I would roll the call up to at least the 20s so you do not have all the extra intrinsic value at risk.

SpecialK
Newbie
Posts: 6

Calendar adjustment/close

« **on:** December 10, 2005, 11:42:55 AM »

I am looking for some guidelines on the best time and price to roll or close calendar spreads - particularly if there are guidlines that vary if you are ITM, OTM or ATM - and the optimal number of days before expiration of front month - I realize there is a tradeoff between maximizing your theta and the gamma risk but would like to know if there is an optimal time to make this tradeoff - any insights greatly appreciated - also, enjoying the new book and I did get a lot out of RD2 and recommend it to anyone
Allen

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

Calendar adjustment/close

« **Reply #1 on:** December 11, 2005, 05:04:03 PM »

Thank you for the comments on the book and RD2.

I don't really believe in hard and fast guidelines because spreads can continue to do better or come back from losing while away from the money. In other words, if a counter party gets in while you are getting out, he or she can make money.

It is more important to develop your own threshhold of pain. There is no, one size fits all, answer. It boils down to: "Would I buy the calendar at the going value?" If the answer is "No" then it is time to get out. If the answer is "yes" then you should stay in. A person standing next to you may have the exact opposite answers but just because one of you happen to be right this time does not have any baring on the future.

Just one man's opinion.

Chuck — **The Stealth Bomber**
« **on:** November 22, 2005, 10:42:10 AM »

Hello Charles,

Thanks again for your assistance in getting your new book and the Position Dissector downloaded. I made a pass through the previous 2 versions of the book the last couple of weeks?? .a lot to digest and a lot of re-reading and re-reading in an attempt to follow everything. I??m looking forward to ??dissecting? the new book.

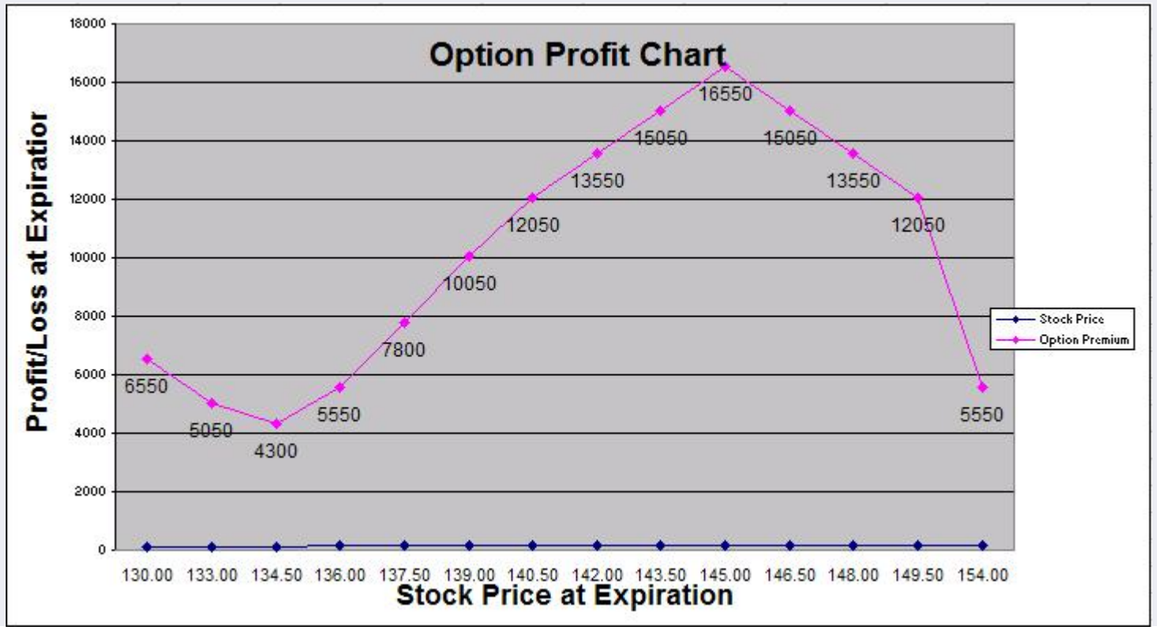
What initially intrigued me was the Slingshot strategy. Of course there??s a lot more to your work than that I soon discovered. Before I became aware of your work, I stumbled upon the same strategy a month or so ago while experimenting with different strategies in a spreadsheet I developed which is loosely based on the tables used in Lawrence McMillan??s ??Options as a Strategic Investment?. I was looking for an approach to mitigate as much risk as possible??since 2000 that has been a lot more important to me than ever before??while taking advantage of selling premium. I have been writing options off and on for 15 years now.

I have attached a strategy that is a combination of several strategies that I think may have some potential and although I have analyzed it up and down, I was hoping you might indulge me and take a look at it and see what potential flaws I may have in my analysis. I realize you have probably thought of a similar approach and can easily evaluate it??good or bad. I certainly don??t want to take advantage of your good will, so if you pass, I understand.

The Position

I wanted to take advantage of the premium available in a short Straddle, the range and premium of a short Strangle and the time value of a diagonal on my long wing Strangle (making them cheaper and therefore the potential for a higher ratio for the slingshot). I used WFMI because it has a lot of premium and took a snapshot and end-of-day yesterday.

Short 10 Jan 145 Straddle
Short 5 Jan 140 150 Strangle
Long 20 Dec 135 155 Strangle



WFMI	145	At Expiration	145	Number of Shares			0
Price at Expiration Increment			1.5				

$	Action							
	B/S	Ctrcts	Stk	Mo	Str Pr	Puts		Prem
8300	sell	10	WFMI	Jan	145.00	Puts	@	8.30
2900	sell	5	WFMI	Jan	140.00	Puts	@	5.80
-1500	Buy	20	WFMI	Dec	135.00	Puts	@	0.75
0			WFMI			Puts	@	
0			WFMI			Puts	@	
0			WFMI			Puts	@	
0			WFMI			Puts	@	
0			WFMI			Puts	@	
0			WFMI			Puts	@	
0			WFMI			Puts	@	
9700	Net Cost Basis							
16550	Overall Net Credit/Debit							

$	Action							
	B/S	Ctrcts	Stk	Mo	Str Pr	Calls		Prem
6300	sell	10	WFMI	Jan	145.00	Calls	@	6.30
2050	sell	5	WFMI	Jan	150.00	Calls	@	4.10
-1500	Buy	20	WFMI	Dec	155.00	Calls	@	0.75
0			WFMI			Calls	@	
0			WFMI			Calls	@	
0			WFMI			Calls	@	
0			WFMI			Calls	@	
0			WFMI			Calls	@	
0			WFMI			Calls	@	
0			WFMI			Calls	@	
6850	Net Cost Basis							

I realize after the Dec expiration I have a naked position and have to decide to either close out the position or roll into new wing coverage or possibly something else depending on the underlying.

Assumptions

Since I don??t have any sophisticated options software, I made some assumptions of where the premium would be at Dec expiration. I kept it simple and assumed all things being equal (could be a big assumption, but bear with me) the premium at the beginning of Jan would be similar to the current premium at the beginning of Dec. If things change and the underlying has moved considerably in either direction, because of the slingshot effect of the wings, I can close out the position and still make some money??..not as much as a pure long or short or in the Straddle/Strangle sweet spot, but enough considering the limited risk.

In the spreadsheet I have depicted 2 scenarios at Dec expiration. The first is a rolling of the wings into a new long position to continue the trade. The second is closing out the position, again using the above-mentioned assumptions as to premium. Obviously there could be a wide variety of other scenarios, but I??m keeping it simple and the wing coverage provides protection and flexibility in the extreme cases.

The Worksheet

The worksheet has 6 tabs, 3 are spreadsheets creating the positions and 3 are the corresponding graphs. I have tested it pretty well and have a high level of confidence in it??s accuracy (based on my understanding of things??which may be a stretch in and of itself) but you never know??.I??m not asking you to debug it, just a disclaimer !!

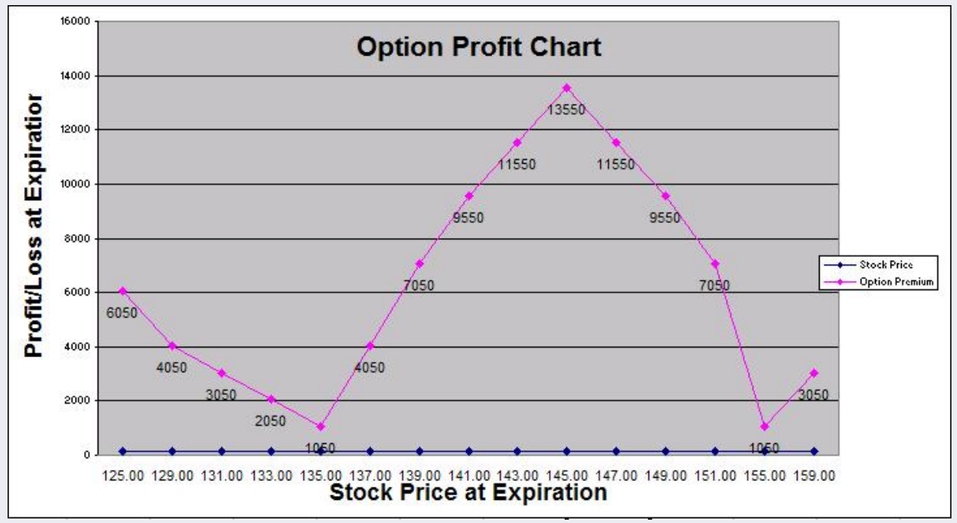
WFMI	145	At Expiration	145	Number of Shares	0
Price at Expiration Increment		2			

$	Action							
	B/S	Ctrcts	Stk	Mo	Str Pr	Puts		Prem
8300	sell	10	WFMI	Jan	145.00	Puts	@	8.30
2900	sell	5	WFMI	Jan	140.00	Puts	@	5.80
-1500	Buy	20	WFMI	Dec	135.00	Puts	@	0.75
0			WFMI			Puts	@	
0			WFMI			Puts	@	
0			WFMI			Puts	@	
0			WFMI			Puts	@	
0			WFMI			Puts	@	
0			WFMI			Puts	@	
0			WFMI			Puts	@	
-1500	Net Rolled Put Position							
8200	Net Cost Basis							
13550	Overall Net Credit/Debit							

$	Action							
	B/S	Ctrcts	Stk	Mo	Str Pr	Calls		Prem
6300	sell	10	WFMI	Jan	145.00	Calls	@	6.30
2050	sell	5	WFMI	Jan	150.00	Calls	@	4.10
-1500	Buy	20	WFMI	Jan	155.00	Calls	@	0.75
0			WFMI			Calls	@	
0			WFMI			Calls	@	
0			WFMI			Calls	@	
0			WFMI			Calls	@	
0			WFMI			Calls	@	
0			WFMI			Calls	@	
0			WFMI			Calls	@	
-1500	Net Rolled Call Position							
5350	Net Cost Basis							

$	Rolled Put Positions							
	B/S	Ctrcts	Stk	Mo	Str Pr	Puts		Prem
-1500	Buy	20	WFMI	Dec	135.00	Puts	@	0.75
0			WFMI			Puts	@	
0			WFMI			Puts	@	
0			WFMI			Puts	@	
0			WFMI			Puts	@	
0			WFMI			Puts	@	
0			WFMI			Puts	@	
0			WFMI			Puts	@	
0			WFMI			Puts	@	
0			WFMI			Puts	@	
-1500	Net Cost Basis							

$	Rolled Call Positions							
	B/S	Ctrcts	Stk	Mo	Str Pr	Calls		Prem
-1500	Buy	20	WFMI	Dec	155.00	Calls	@	0.75
0			WFMI			Calls	@	
0			WFMI			Calls	@	
0			WFMI			Calls	@	
0			WFMI			Calls	@	
0			WFMI			Calls	@	
0			WFMI			Calls	@	
0			WFMI			Calls	@	
0			WFMI			Calls	@	
0			WFMI			Calls	@	
-1500	Net Cost Basis							



UNH	57.5	At Expiration	57.5	Number of Shares	0
Price at Expiration Increment		1			

$	Action							
	B/S	Ctrcts	Stk	Mo	Str Pr	Puts		Prem
0			UNH			Puts	@	
0			UNH			Puts	@	
0			UNH			Puts	@	
0			UNH			Puts	@	
0			UNH			Puts	@	
0			UNH			Puts	@	
0			UNH			Puts	@	
0			UNH			Puts	@	
0			UNH			Puts	@	
0			UNH			Puts	@	
5325	Net Rolled Put Position							
5325	Net Cost Basis							
7525	Overall Net Credit/Debit							

$	Action							
	B/S	Ctrcts	Stk	Mo	Str Pr	Calls		Prem
0			UNH			Calls	@	
0			UNH			Calls	@	
0			UNH			Calls	@	
0			UNH			Calls	@	
0			UNH			Calls	@	
0			UNH			Calls	@	
0			UNH			Calls	@	
0			UNH			Calls	@	
0			UNH			Calls	@	
0			UNH			Calls	@	
2200	Net Rolled Call Position							
2200	Net Cost Basis							

$	Rolled Put Positions							
	B/S	Ctrcts	Stk	Mo	Str Pr	Puts		Prem
8300	sell	10	UNH	Jan	145.00	Puts	@	8.30
2900	sell	5	UNH	Jan	140.00	Puts	@	5.80
-1500	Buy	20	UNH	Dec	135.00	Puts	@	0.75
-3500	Buy	10	UNH	Jan	145.00	Puts	@	3.50
-875	Buy	5	UNH	Jan	140.00	Puts	@	1.75
0			UNH			Puts	@	
0			UNH			Puts	@	
0			UNH			Puts	@	
0			UNH			Puts	@	
0			UNH			Puts	@	
5325	Net Cost Basis							

$	Rolled Call Positions							
	B/S	Ctrcts	Stk	Mo	Str Pr	Calls		Prem
6300	sell	10	UNH	Jan	145.00	Calls	@	6.30
2050	sell	5	UNH	Jan	150.00	Calls	@	4.10
-1500	Buy	20	UNH	Dec	155.00	Calls	@	0.75
-3800	Buy	10	UNH	Jan	145.00	Calls	@	3.80
-850	Buy	5	UNH	Jan	150.00	Calls	@	1.70
0			UNH			Calls	@	
0			UNH			Calls	@	
0			UNH			Calls	@	
0			UNH			Calls	@	
0			UNH			Calls	@	
2200	Net Cost Basis							

If this is a viable strategy, I don??t know what you would call it, a Triple Reverse Diagonal Slingshot, Iron Straddle Swap Slingshot, or instead of an Ugly Butterfly how about an ADHD Butterfly !! I actually have a suggestion based on the initial graph I??ll share with you if it is indeed a viable strategy.

Again, Charles, thanks for your time and your good work.

Chuck Moore

PS I am going to go through a dissection process on this strategy one way or another when I get up to speed regardless of its viability as a good learning experience. It will probably take me a while to get through it though.

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

The Stealth Bomber
« **Reply #1 on:** November 22, 2005, 12:21:31 PM »

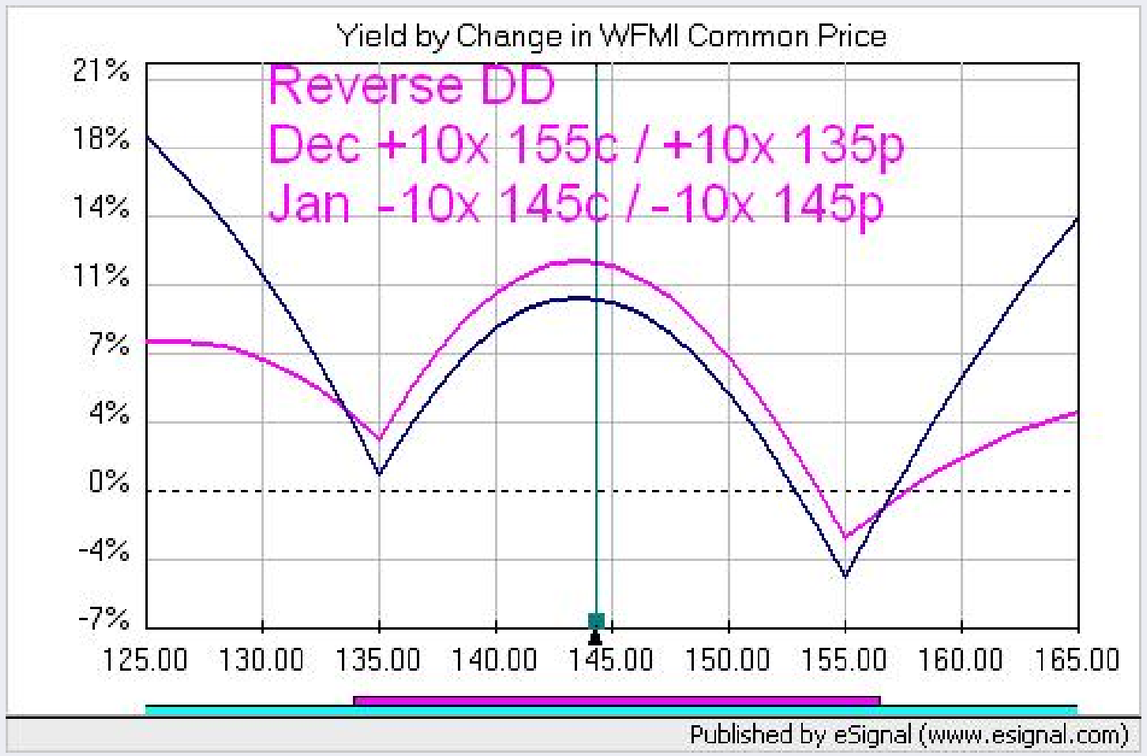
Interesting work Chuck,
It is viable but from a margin standpoint it will be treated as if it were naked because the back month does not have any protection. Just an NASD rule in your way.

When I get some time, I will chime in more but perhaps some others will get into the mix with replies to your post.

Chuck

The Stealth Bomber
« **Reply #2 on:** November 22, 2005, 01:03:30 PM »

WFMI will most likely trade within the 135 - 155 range. Anything outside of that would be 2 std dev away from the price. I think the kickers are a waste of money. Given the long term uptrend it's more likely to continue up. Your range is so wide that it would be simpler to do a 10x reverse Double Diagonal (135/145 145/155) which gives a slightly better yield on a lower margin. Also, those Jan wings are probably going to cost just a little more if you buy them at Dec expiration.



Chuck

The Stealth Bomber
« **Reply #3 on:** November 22, 2005, 02:00:52 PM »

Thanks for the input PJS. I'm new to this combination strategy game and I'm not familiar with how your yield chart works. Is the black line the December expiration yield and the purple line January? My spreadsheet of your suggested reverse double diagonal shows a constant result on any price below 134.50 or above 155.50. If that is correct, I don't understand how the curve shows a greater return percentage beyond 135 and 155 respectively.

Chuck

tharma raj

The Stealth Bomber

« **Reply #4 on:** November 22, 2005, 04:58:47 PM »

Hi Chuck,

Very interesting work. Your position can be looked at in several ways:

1. Long strangles 135/155 versus short strangles 140/150 and short straddles at 145 - which you have already outlined
2. 10 x 135/145/155 butterfly and 5 x a 135/140/150/155 Condor and 5 x long 135/155 strangle
3. The potential embedded calendars at each strike given that you have options in 2 different months.
4. 2 modified ratio backspreads - one 145/140/135 put ratio backspread in a ratio of 2:1:4 and one modified call ratio backspread at 145/150/155 in a ratio of 2:1:4 respectively

Interesting to look at these different structures to get a different perspective of the different positions in your trade

I think that the 3 big issues with this trade are:

1. Meeting the margin requirements - as Charles says...however you say that you have been trading/selling naked options for 15 years so maybe you know how to handle this margin issue.
2. Deciding what you will do at December expiry. you may , for example want to close the trade completely if the cost for rolling the DEC. options to JAN. is too expensive and/or there has been a significant drop in value in the sold options....or maybe you may finance the roll forward by selling a couple of JAN options at the current sold option strikes.

3. It is important to understand the vega component of this trade given the embedded calendars in this trade and whether it is a significant risk or not and if you are willing to tolerate this risk given your predictions of potential changes in volatility between now and December expiry.

I still think it is a very interesting trade with a lot of potential...the key is to understand how things could change in this trade and to have a contingency plan on how to manage it.

Let me know what your thoughts were on how you were going to manage these positions if the stock moves to certain strikes or if your directional predictions change.

Hope this is helpful

Kind regards,
Tharma

Chuck

The Stealth Bomber

« **Reply #5 on:** November 22, 2005, 07:17:32 PM »

Thank you Tharma. Your thoughts are very helpful. Thanks for the different views of the trade. I'm going to use those to help me further analyze possible adjustments required if and when the underlying moves and how far and how quickly.

Although I have traded naked positions in the past, the majority of them were in '98 and '99 when the market bailed you out most of the time and never within a combination or spread. Since then, as most of us probably have, I've become much more aware of risk and as a result I like to have as much protection as reasonable to make it easier to stick to a risk management plan.

I have realized I need to spend more time thinking about potential adjustments at DEC expiration and I appreciate your suggestion. I'm not sure I understand it though. Were you suggest selling additional JAN strikes to pay for a new long strangle to continue the trade in JAN, and if so, all the strikes and/or how many?

Since I'm new to the Greek concepts, could you possibly expand a little on the vega issue associated with the calendars?

When I do a little more due dilligence on the adjustments, I'll let you know.

Thanks,

Chuck

tharma raj

The Stealth Bomber

« **Reply #6 on:** November 23, 2005, 04:07:28 AM »

Hi Chuck,

Yes, I was suggesting selling some jan options, as one possibility, at Dec. Expiry to help you to finance the purchase of the jan 135/155 strangle to maintain a limited risk exposure in this trade.

The question about whether you want to do this adjustment or not and at what strikes and how many options you want to buy/sell is completely up to you and will depend a lot on how you feel about the 3 sub-questions I listed below...once you answer these questions you may be in a better position to answer the question you asked me in your last email about how many and at what strikes.

These questions that you would ask yourself at December expiry are:

1. What is my directional prediction now and what kind of changes would I need to make to my option structure to be in alignment with my directional prediction?

2. What is my prediction on how the implied volatility will change in the next month and how much exposure do I want to have to these changes in Implied volatility and is my vega component in my adjusted trade(see vega explanation below) in alignment with my predictions about implied volatility changes in the next 1 month (from dec. expiry to jan expiry).

3. Do the option prices make it favorable to do the the type of adjustments that Ii am potentially thinking about i.e. is the option too cheap to sell or is the option to expensive to buy.... in alignmnet with Charle's teachings. (Although you can plan ahead about what you would do in different scenarios you will not really know the exact option prices until you arecloser to dec expiry. I would still recommend planning ahead just be aware that the Jan. options prices may fluctuate a bit from your predicted prices at Dec expiry.)

4. In terms of the Vega component in calendars when you are long calendars you have a positive vega and your trade will benefit from increases in Implied Volatility. The opposite is true if you sell calendars when you will have a negative vega.

5. For a much better description of Vega than I could ever give you I think it would be best to look at Charles book and specifically at the:

    1. Vega section in the Chapter on Greeks

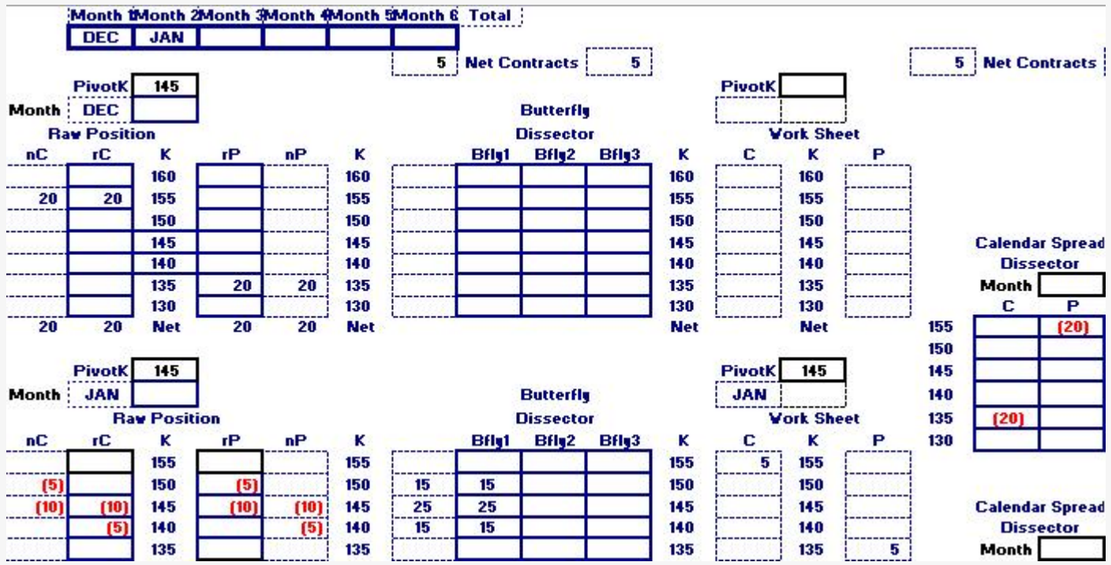
    2. Look at the Vega graphs and graph explanations in the chapter on Calendars.

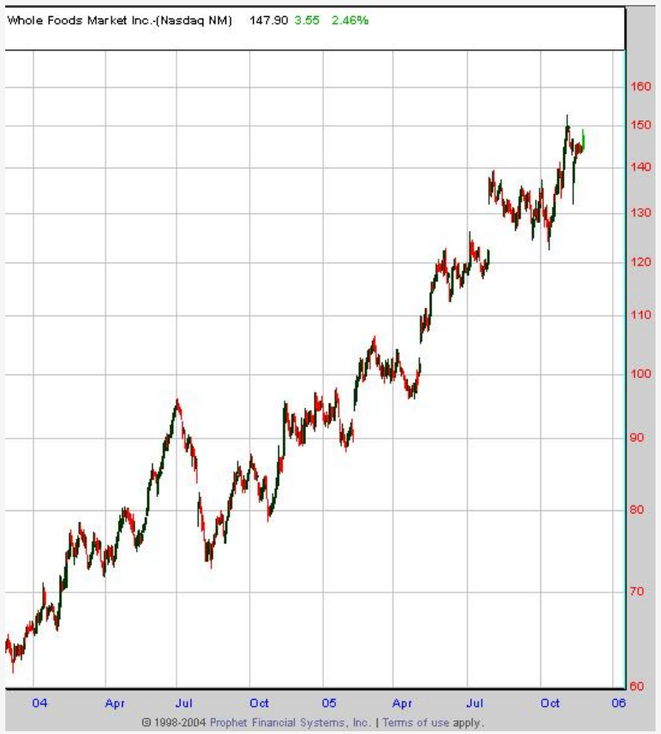
I hope this is helpful in answering your questions.

Kind Regards
Tharma

Ri$k Doctor
Administrator
Hero Member

The Stealth Bomber
« **Reply #7 on:** November 23, 2005, 10:54:41 AM »





WFMI | WHOLE FOODS M... Easy to Borrow | NASDAQ | Volume | Open Interest | 7

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
147.90 C	+3.55	147.90 C	147.97 C	2 x 1	783,472	144.61	149.12	144.08

YIELD	PE	EPS	DIV	DIV.FREQ	DIV.DATE	52HIGH	52LOW	BETA	SHARES
11.63%	74.7	1.98	4.3	Q	1/11/06	152.668	88.28	.978	67,954,...

TRADE GRID

OPTIONS | Single | Exchange Composite

CALLS VOLUME	CALLS OPEN.INT	CALLS BID X	CALLS ASK X	EXP	STRI...	PUTS BID X	PUTS ASK X	PUTS VOLUME	PUTS OPEN.INT
DEC 05 (23) 100									22.11%
41	874	13.50 C	13.80 I	DEC 05	135	.35 I	.50 I	303	2,303
182	814	9.00 I	9.30 I	DEC 05	140	.85 I	1.00 I	163	1,143
536	1,993	5.30 I	5.60 I	DEC 05	145	2.10 I	2.25 I	264	1,150
331	1,526	2.60 I	2.80 I	DEC 05	150	4.30 I	4.60 I	213	164
186	1,703	1.10 I	1.20 I	DEC 05	155	7.80 I	8.10 I	6	137
57	412	.40 I	.50 I	DEC 05	160	12.10 I	12.50 C	10	101
4	54	.10 I	.20 I	DEC 05	165	16.90 C	17.30 I	5	10
JAN 06 (58) 100									28.96%
2	640	14.80 B	15.20 C	JAN 06	135	2.60 I	2.75 I	23	2,027
19	884	10.80 I	11.20 I	JAN 06	140	4.10 I	4.40 I	127	461
150	2,238	7.50 I	7.80 I	JAN 06	145	6.30 I	6.50 I	25	287
64	776	4.80 I	5.10 I	JAN 06	150	9.10 B	9.40 I	10	211
36	546	2.90 I	3.10 I	JAN 06	155	12.60 I	12.90 C	10	111
25	648	1.60 I	1.75 I	JAN 06	160	16.50 C	16.80 B	2	153
30	96	.80 I	1.00 I	JAN 06	165	20.90 I	21.30 C	11	0

Ri$k Doctor
Administrator

The Stealth Bomber
« **Reply #8 on:** November 25, 2005, 10:18:56 AM »

Reason that there is a deeper dip on the pjs R/R profile above: At DEC expiration, the JAN 155 strike has about 15% more (155/135, even with identical IV) extrinsic value than the 135 strike. if that is dificult to grasp, consider the example of a 10 for one stock split of a 200 stock down to 20. The holder of an ATM 200 straddle valued at $20 would now have 10X as many 20 stradles valued at 2.00 each.

888
Guest

Weeklys
« **on:** November 21, 2005, 10:55:31 AM »

Charles,

Any comments that you would like to share about the new weekly options?

Ri$k Doctor
Administrator
Hero Member

Weeklys
« **Reply #1 on:** November 22, 2005, 11:55:34 AM »

Just like any old options with a week to go. Great to have those options. More opportunity and versatility.

ohlala
Newbie

Net change in premium
« **on:** November 07, 2005, 02:57:16 AM »

Hi Charles,
I??ve found an interesting little tidbit which seems to contradict what I??ve been learning so far. The front month deltas are always higher compared to the deferred month that goes for gamma as well (disregarding extreme OTM,ITM strikes). So how is it that the back month options for the same strikes show a greater increase in the options than the front month?

delta	gamma	net change	bid	ask						
										16.02%
.96	.01	0	15.30 C	15.60 I	NOV 05	80	0 A	.05 C	.05 I	0
.95	.01	+.70	10.30 I	10.60 I	NOV 05	85	0 C	.10 C	.15 X	0
.90	.04	+1.50	5.40 I	5.70 I	NOV 05	90	.10 I	.20 I	.15 X	-.30
.55	.12	+1.00	1.45 I	1.60 I	NOV 05	95	1.05 I	1.20 I	1.05 A	-1.60
.07	.04	+.10	.05 I	.15 I	NOV 05	100	4.60 I	4.90 C	4.90 X	-2.50
.02	.01	0	0 A	.05 I	NOV 05	105	9.50 I	9.90 C	19.10 P	0
.01	.01	0	0 A	.05 I	NOV 05	110	14.50 I	14.90 C	24.10 P	0
										17.64%
.96	.00	0	25.40 C	25.80 I	DEC 05	70	0 A	.05 C	0	0
.95	.01	0	20.50 I	20.80 I	DEC 05	75	0 A	.10 I	0	0
.94	.01	0	15.50 I	15.90 C	DEC 05	80	.05 I	.10 I	0	0
.90	.02	+1.50	10.70 I	11.10 C	DEC 05	85	.15 I	.25 I	.40 P	0
.79	.04	+2.60	6.10 I	6.50 I	DEC 05	90	.65 I	.75 I	.70 X	-.49
.54	.07	+1.15	2.55 C	2.70 A	DEC 05	95	2.00 I	2.20 C	3.50 P	0
.21	.05	+.35	.60 I	.70 I	DEC 05	100	5.10 I	5.40 I	5.20 I	-2.70
										17.58%
.97	.00	0	25.50 I	25.80 I	JAN 06	70	0 A	.15 I	.10 I	0
.96	.01	0	20.50 I	20.90 I	JAN 06	75	.10 A	.15 I	.10 I	-.20
.94	.01	0	15.70 I	16.00 I	JAN 06	80	.20 A	.30 I	.35 X	0
.88	.02	0	11.00 I	11.30 I	JAN 06	85	.50 I	.60 I	.60 X	-.45
.75	.04	+1.80	6.80 C	7.10 I	JAN 06	90	1.20 I	1.30 I	1.15 A	-.70
.55	.05	+1.35	3.30 I	3.60 I	JAN 06	95	2.75 C	2.90 I	4.50 B	0
.29	.05	+.55	1.20 I	1.40 I	JAN 06	100	5.60 I	5.90 I	5.80 I	-7.40

Can you please explain why this is?

Ri$k Doctor
Administrator
Hero Member

Net change in premium
« **Reply #1 on:** November 08, 2005, 06:51:06 PM »

Bad settlements happen frequently in illiquid stocks like Chubb and especially in deferred months.

The theoretical value of an option could be unchanged but if there was a bad settlement the prior day and another bad one today it can look like there was a violent move in the option when in actuality it did not move.

Better to ignore the net changes in any given day. The reality will be what prices you can trade on. You live at the whim of the market makers when you get involved with illiquid stocks. Better not to trade them. MMs can gouge you when you go into the trade and you are at their mercy when you want to get out.

888
Guest

RFX conversion
« **on:** October 14, 2005, 11:21:37 AM »

Charles,

Suppose that I have a conversion on RFX. The stock is halted on the exchange and thus the options are halted, too.
If you had the position on, would you exercise the puts (and be naked short a deep out of the money call option that expires in one week) or would you keep the position on until expiration (in case some miracle happens).

Suppose that the stock is 8 and the strikes on the October conversion is 17.5.

Ri$k Doctor
Administrator
Hero Member

RFX conversion
« **Reply #1 on:** October 17, 2005, 08:45:10 AM »

I would leave it alone.

888

RFX conversion
« **Reply #2 on:** October 17, 2005, 10:00:55 AM »

Leave it alone until Friday I presume?

Thanks Charles.

Ri$k Doctor
Administrator
Hero Member

RFX conversion
« **Reply #3 on:** October 21, 2005, 11:16:11 AM »

Yes. It is Friday and still halted. What does your brokerage firm indicat?

888

RFX conversion
« **Reply #4 on:** October 25, 2005, 10:45:02 AM »

I exercised the put. The calls (obviously) expired worthless.

Onto the next trade.

Ri$k Doctor
Administrator
Hero Member

RFX conversion
« **Reply #5 on:** November 02, 2005, 08:37:50 AM »

OK

Bengt

Optimizing dilemma...
« **on:** September 16, 2005, 01:23:37 PM »

Here's another challenging question...at least for me as a beginner.

The classical "when to hold and when to fold"!

Is it +50% = allways take the profit
0r 75 ...or 100%

In stock it's simple, you can allways follow the classical S/L just below the latest support line.

I have a gut feeling that most of the time (except the occasional 500...700% explosion like in Sept Nokia) 100% for the optionprofit of a single trade, is a very often seen as a turning point in the most profitable stocks.

Off course this also depends on the timeframe used.
But looking at 5 bank days..this is where I find the 1 -2 day winners over here.

Now the dilemma is...to be out as short as possible NOT to miss the explosions in price like above. How would I felt if I had taken a 50% profit the day befor +700% ...? Not vey good I promise you I know myself when I'm loosing.

I am sure you have a suggestion Charles.

My solution and thinking at present is...check carefylly if there is any trend in the way option prices fluctuate over time.

If we take away the <=20days to expiration positions, the theta timeinfluence is pretty stable. So there should be a way of over time track the option price and the fluctuations amplitude.

Maybe around 50% for one and another 75% and yet another 125% from latest low to the peak high.

By following this tracking statistics and putting the selltarget there (- some entry+exit marginals)
over long time would't the statistics work in our favour...in spite some to early and too late sells.

I have read your answer in CSW: "If the price is still good for an entry...then kkep it" but what about the many +50...100% short term profits you would miss Charles?

Interesting challenging dilemma. :-)

/Bengt

tharma raj

Optimizing dilemma...
« **Reply #1 on:** September 19, 2005, 03:00:31 AM »

Hi Bengt,

Another very interesting question....and another question every trader does ask.

Let's analsye this question in a little more detail. You want to know whether there are good rules you can use to take profits once a certain profit target is met....this is almost an impossible question to answer. Let me explain.

There are several reasons why a one size solution may not fit all
1. Different stocks behave in different ways - Google has much more daily volatility than Microsoft.
2. Some stocks are trending and some stocks are channeling
3. Profit target areas are also a function of the risk in the trade and how much more money you could make by staying in the trade and this is directly related to your option structure. for example a butterfly may lose less money than a straight naked long call when there is an adverse move but it will also make less money than the call when there is a favourable move.

I hope you can see why this is an impossible question to answer because it is related to so many other variables (some of which i have listed above) that have not been quantified.

Even if you were to come back to me and quantify these variables you would have not been able to ask me this question because this question also relates to your personality and your own psychological profile. For example, you may be someone who is willing to take a large gamble and win only a small number of trades and I may be someone who is very risk aversive and wants a higher probabilityof winning trades and I don't mind if I only win a little bit. In this scenario you can clearly see that any advice I give to you may be in direct conflict with your personality and your trading style.

So how do you answer this question....after all that is really what you want to know. Well, the only answer, I have is that you have to ask yourself more questions.

For example, what kind of trading style do you have, are you trading trending stocks or volatile stocks or is it something else?

Secondly ask yourself what is a good exit based on you looking at your trading style just based on common sense. Then ask yourself are you happy that this will be a good exit strategy and do you feel that you need to test it further? If you feel you want to test it further, then collect a sample of backtested trades and see how they performed using your exit strategy. Then ask yourself:

Q1. Did the exit strategy perform like I expected it to?
Q2. Does it look like there are ways I can improve my exit strategy?
Q3. What further testing, if any, do I need to do to prove that these methods for exiting my trades could actually work?

Even with this procedure you have to be careful about a couple of things which are:
1. The sample of backtested trades may not be truly representative of the population.
2. You do not try to make your exit rules such that they maximise your profit from your backtested trades because otherwise you could fall into the trap of what is known as over-optimising or curve-fitting the data and you will find that even though it worked perfectly in the past it will not be as good in the future when you apply it to your real trades.

Finally let me touch on the last point you rasied regarding what I called the "fear of regret" when you said:

"Now the dilemma is...to be out as short as possible NOT to miss the explosions in price like above. How would I feel if I had taken a 50% profit the day before +700% ...? Not vey good I promise you I know myself when I'm loosing"

This is a common mistake that all traders including myself make....and it is something I have talked about before about why Hindsight is a trap. It is very easy for you to look back and say I should have held on for the 700% profit ....but the fact is at that point you did not know that the trade was going to go to 700% profit becasue if you had known that, you would never have exited the trade in the first place. So if you exited the trade based on your rules for exit then you did the right thing and it doesn't really matter whether the trade went up to 700% or not. This brings up a very important concept that a lot of traders, including myself , get confused about, which is that if I always follow my trading rules....have I really done the right thing, after all isn't the right thing to do the trade that makes me the most money....it is true that my trading rules sometimes may get me out of trades that will end up making even more money but given that I don't know which of these trades will make me the explosive ones I shouldn't concern myself with worrying about this all I can do is follow the trading rules that I came up with in the first place.

Let me give you an analogy....trying to get the maximum profit on a trade is like walking up a mountain and trying to predict where the top of the mountain is (assuming you cannot see the top of the mountain)....the trick is you wont' know where the top of the mountain is until you start walking down the other side....this is the same dilemma one can face when trying to go for the absolute maximum profit.

If you were still really worried that you were going to have an explosive move then one sensible thing you could do is exit some portion (say half) of the current position and leave the other half on to benefit from this type of move....but again you may want to test this hypothesis out for yourself to see whether this strategy is a good one based on some of the questions I outlined above on how to think about testing a strategy.

I hope you can see from this answer why it is ok to find what other people may use...but at the end of the day you must then decide what you are most comfortable with and what is sensible for your trading style and your psychological makeup.

Hope this helps.

kind regards

Tharma

Bengt

Optimizing dilemma...
« **Reply #2 on:** September 20, 2005, 08:35:49 AM »

Thanks Tharma.

This question-replying is getting better and better :-)

GREAT answers like Charles is saying. :-)

I agree with all you are saying, and of course these answers are not new to me.

Still I am challenged by thos optimizing problem.

Surely the psycholigical issue...where and wiht what are you comfortable...I never ever excpected this +700% ride...which I was on top of. GREAT I say again G R E A T feeling! :-)))
Share my joy. At the same time I could crystal clearly see
this was like winning on a far OTM option that blows up 100xtimes in price.

I want to forget for a moment the issue what is the comfortable trading style. THAT is an importent question Tharma.

Back to the challenge.
I interpret optimizing this way:

IF the stock is is TRENDING...stay in and wait for the big one.

IF the stock is channeling...take every profit that roughly fits the past option pricing fluctuations. "Scalping the amplitudes" !
Check carefully the influence of Theta, so time decay won't effect this amplitude too hard.
>20days expiration should'nt make theta hurting too much.

So I see it as a optimizing problem ...taking as many reasonable scalping profits and at the same time being in the market as often as possible to catsh THE BIG ONE.

I read again and again in the trading books, that the successful lose A LOT! Surprisingly...maybe they are not so smart after all ;-) Their smartness is they never miss the REALLY BIG ONES! Maybe less then 5% of the yearly ups.

Agree?

With backtesting it should be possible for each uderlying to find the optimum trading style...not saying this is in the comfortable zone...maybe for no one...BUT it should be statisticly/mathematically possible and challenging to find the level...and test it over time (just like machine trading) +- some margin for leaving the curve-fitting stumble you mention.

I have lots of gut feelings :-) like I said.
If I see my positions +100% I get allmost the opposite to the often beginners feeling...(I had that also some 10 years ago)
this is great...soon Ill be a millionaire ;-)

Instead I now freeze of fear of loosing the profit...and just sell right on the buyer's price....Bingo I say to myself.

So far so good!

After the good feeling settles... I have another problem that I guess is so typically for human psyche...(anyone recognize themselves in this?) I immidately start looking for the next good entry...not to let the winning money cool off :-)
meaning about 75% of the time I enter a loosing position.

So I am now using some strict trading rules on myself.

I call them "5x5 Greenlights"!

Now this is a fast translation from swedish, sorry for any mis-spellings or grammatical errors.

1. Wait for ONE clear correction in any good ol' index. Nasdaq100, SP500 or whatever is your favourite.

Maybe this "correction" entry ciriteria could be reduced to only the stock you want to enter.

2. Bollinger narrowing...
3. RSI rising or very low
4. MACD rising or very low
5. Max 1/3 (for me) of the trading capital in one single trade
(usually 7-10%)

A. Choose a derivative with undervalued price
B. Low implied volatility
C. Underlying stock "hopefully" high historical volatility

D. Choose "Strike"
ITM <=1 month to go
ATM or ATM 1-2 months left
OTM if > 2month

E. Never any pos. < 20days left (gamma+delta cause the prise to be too volatile!)

This results in 5+5 green lights = 10 x Go!Go!Go! = Take the trading position!

Now remember these are my "private" rules, developed through bitter losses!
Sooo feel free to adjust and comment in any way.

I am eagerly listening / reading over here in Finland!

Best whishes to you all and especially Tharma who took the time for an excellent answer.

/Bengt

Ri$k Doctor
Administrator
Hero Member

Optimizing dilemma...
« **Reply #3 on:** September 27, 2005, 06:54:58 AM »

Experience is your best teacher and as long as you learn from your mistakes and triumphs while optimizing your approach, you will be on the right track. One word of advice: as you get more and more consistenly profitable, maintain your rules and only garadually increase your size. Let new profits dictate your rate of growth, not your ego.

Bengt

Optimizing dilemma...
« **Reply #4 on:** September 27, 2005, 08:21:32 AM »

Words of wisdom Charles.

Thats the thrill of trading...
It's not only your money on the line....
it's also your ego...much worse to have that in control. :-)

So far so good.

Bengt

Fishing!

« **on:** September 07, 2005, 06:21:42 AM »

Hello friends.

I had an experience today I would like to share, and hopefully get some good confirming or correcting (disagreeent) comments on.

I strongly wanted to get into the AZ N5 I370 with a bought call, and later complement it with a shorted call.
Making up a normal bull spread.

Now the interesting thing was that I350 was trading about 15.00 - 16.00. and the 1370 about 2.00 - 2.50
The 350 was too expensive for me to get into.

So I was left with the I370.

I checked the greeks and the theoretical value was somewhere around 1.80. So both bidders/askers were way over the reasonable value. (at least I felt so)

Anyway I tried my luck at a little higher the highest bid=2.10, later 2.20... 2.10..2.20 following the bids fluctuations, during about 1hour.

Suddenly my asked price was covered. To my surprise!
Since I fealt the spread was quite wide and not moving very much.

Interestingly (and for me confirmingly) I was the only one getting this at 2.20. Even after 2 hours my 2.20 was still the latest covered.

My conclusion was (now correct me if you think I am wrong, and just believing (=wishfull thinking) what I want to believe ;-)) that my moving in top of the bid prices (just closest possible but still above) ...triggered someone (maybe eager to sell?) on the other side to finally cover what I felt was still a bargain (at this moment).

If that is true , my future trading style "entering a trade" will be just this strategy...always closest above highest bid at the moment.
Changing 2-3 times/hour (if needed)
Bating the fish=other side of the trade!

This might work on the other asking side as well, with price just closest below lowest asked to exit a trade!

Before, if I really wanted to get in, I have put myself in the middle spot between ask/bid, and mostly gotten it covered in 2 hours. (Don't want to wait for days for a possible bargain = normal bid price, and the risk that the market moves as I expected with me not onboard! prices flying away from me :-(

Now what do you think of this entering strategy... a waist of time?... maybe (in futures where +-100%/ a couple of days is not unusual).

Or a money saver(=profit increaser) over long time... IF? you are successful, and it really works. :-)

I hearby name it "Bating the fish!" = entering a trade at good price :-)

How do you "normally" enter your trades?
Checking theor value? ...or just getting in whatever the offered asked price?

Please share with us, the good entries (like I felt this was)
and especially the bad ones so we all can learn also from that where not to put the prices.

Greetings from Finland
/Bengt

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

Fishing!

« **Reply #1 on:** September 16, 2005, 07:12:18 AM »

When the option was 2.00 - 2.50 the fair value was presumably 2.25 (check this by getting the middle of the put and plugging it into the R/C fair value equation.

Personally, I would never trade options where the markets are so wide. I would find something else to trade.

If you had to trade that option, realize first that the MMs are looking for an edge; to buy below 2.25 or sell above it with a certain profit margin. If you were trying to buy it then bid 2.30 or 2.35 and the 2.40, etc. (if you really need them). If you are trying to sell then offer it at 2.20, then 2.15, then 2.10, etc.

To middle the market at 2.25 is to hope for another customer going the other way. MMs don't come to work to trade in the middle. The only reason they hit (sell to) a 2.20 bid is because the market has dropped (or implied volatility has) and now what was worth 2.25 when the market was higher is now worth perhaps only 2.00.

Regarding your theoretical values, it seems that it is not accounting for skew in which case you need to interpolate. Options do not have any empirical value. They trade acordin to supply and demand and the true value is somewhere between what buyers will pay and sellers will acdcept. BTW MMs are the buyers and the sellers at the same time (like money changers). Alot of these concepts are covered in the free RD1 download and free weekly webinars that I give.

BTW: What is your definition of covering? We use it to mean: buying back a short position.

Bengt

Fishing!

« **Reply #2 on:** September 16, 2005, 12:38:56 PM »

Thank you Charles for the insite answers.

First of all let me apologize to all of you, for lacking the english correct wordings and finance vocabulary. My native language is swedish. Off course what I meant was my order was filled.

I see you know the MM side inside out Charles. :-)
Excellent knowledge to share with us
us on the other side of the trade.

My conclusion is that the method I used will NOT work allways.

But it has worked now so many times for me...(is it only the swedish market that works this way?)
Maybe it works best in a non-moving market situation...just guessing.

I ALLWAYS start the way you suggest Charles...
the one correct price just above the highest buyer...
then I wait normally some hour...if the pricetrain goes slightly up or down I will adjust accordingly to still stay on the top.
And then adding on ...creeping up slowly to trigger a fill.

It can take a couple of hours, bur SURPRISINGLY often (more then chanse in my view) someone on the other side (not MM then, like you correctly mention) will give my price a fill.

My question though is, is it worth the money and time Charles?
when the price in the next couple of days most probably will swing some +-...50-100%?

Nokia went a whooping +700% the other day. :-)
Bought at 0.35 sold at 2,70.
Nice when it happens, pure luck for me. :-)
The company released some good profit figures.

In that trade for example, whats the point chasing a spread of maybe 0,30 - 0,40
when it goes to whooping +700% in hours...!

I am sure you have comments on this Charles.
Everything is a balance of time, profit and effort.
IF (?) the analysis of underlying is well done,
I personally don't see any reason for not bying direct at sellers price, (maybe one first 10 min. try in the middle of the spread) just to get onboard (never chasing the sellers price though).
Eventually the profil will come, othewise the analysis was in error. Back to the drawing board ;-)
I personally prefer spending more hours on the analyzis of underlying,
then chasing some 10% on the "entry ticket"
Your turn Charles.
Warm greetings from a allready cold Finland -1
/Bengt

Ri$k Doctor
Administrator
Hero Member

Fishing!
« **Reply #3 on:** September 16, 2005, 02:15:21 PM »

I would have paid .40 and would have been off to something more worthwhile. It was worth .35 so rather than miss the trade an opportunity to manifest you opinion just pay the 5 ore. Why fool around and perhaps miss out on making a whopping 700%?

Fishing!
« **Reply #4 on:** September 16, 2005, 06:07:44 PM »

Ok Charles.

I agree and does this mean that you sort of disapprove of the fishing low entries, that started this string?

If the analysis says go... any (?) reasonable offered price would be ok.
And then have the more time to look for other trades.

/B

Ri$k Doctor
Administrator
Hero Member

Fishing!
« **Reply #5 on:** September 19, 2005, 07:56:09 AM »

I would not say disapprove. If you are bullish from the current level, don't mess around to save a tiny bit and perhaps miss the ride.

"Fishing" would be preferable if you were not currently bullish but preestablished a support level in which to enter, in hopes that the market traded down to that level in order to trigger your order. Nothing wrong with that.

ohlala
Newbie

To exercise or not
« **on:** September 13, 2005, 08:06:59 PM »

Hi Tharma or Risk Doctor,

I am a bit confused about the exercise of calls on ex-dividend date. What I've read is, if the dividend is greater than the cost of carry on the stock less the corresponding put it is of economic benefit to the call holder to exercise the call and purchase it synthetically. Is there a way of translating this cash flow in terms of the price of the synthetic call and comparing it to the real call and seeing which is the better do?

Also, with regard to exercise of puts. When is it better to exercise and take up the synthetic put and is there a way of representing the cash flow in terms of the price of a synthetic put compared to a real put?
I would appreciate some feedback.

Ri$k Doctor
Administrator
Hero Member

To exercise or not
« **Reply #1 on:** September 14, 2005, 08:13:03 AM »

You would compare the Real Call price to the put price plus the stock price minus the strike plus the carry cost of the stock minus the dividend.
(C vs. P + S - K + cc - D)

So, if the **Real Call is cheaper** than the value of the synthetic then it is not as valuable and a candidate for exercising for the Dividend.

In the case of a Real Put price, compare it to the the cost of the Call plus the strike minus the stock minus the short stock rebate plus the Dividend they would have to pay.
(P vs. C + K - S - ssr + D)

So, if the Real Put is trading around Parity (having no extrinsic value left) it is a candidate for exercise by those who can be short the stock and collect a short stock rebate and also pay the dividend because it is cheaper than what they will receive in interest.

Perhaps you have already read the following excerpt (below)from Chapter 3 of Coulda Woulda Shoulda (Page 79 in the latest revised rough draft version). It is important to realize that your position will change and have a different risk profile unless the rest of the position is liquidated so you must anticipate the resulting position and whether you intend to keep that before you decise to exercise or not.

Keep in mind the Rent-an-Option nuance of having a candidate for exercise (the very next topic in CWS after what is pasted below).

TO EXERCISE OR NOT TO EXERCISE?

It should become clear after reading about early exercise nuances why it is beneficial to be in control of the exercise by being long the deep in-the-money options. There is a good reason to be willing to pay a little extra when buying them and charging a little more when selling / shorting.

Calls are almost never exercised early unless there is a dividend (payable to holders of long stock) with a greater amount than the interest to carry that stock plus the cost of the corresponding (same strike) OTM put. This OTM put needs to be purchased in order to keep the trader??s market exposure the same as it was before the exercise.

Puts are commonly exercised so that traders can save on the carrying costs of their long stock, or so that they can earn interest on being short stock (called short stock rebate). Exercise happens when the corresponding OTM call can be purchased for an amount less than or equal to the carry costs involved with the deep ITM put. The OTM call needs to be purchased in order to keep the trader??s market exposure the same as it was before the exercise.

Exhibit 3-20 displays positions in the first column. Each position??s exposure before an exercise is detailed. The next column shows the position and exposure after exercise of the option. The last column, ??Lost Attribute??, identifies the missing element, which is needed in order to maintain the position exposure that one had prior to exercise. One therefore needs to purchase the corresponding out-of-the-money option in the same quantity.

EXHIBIT 3-20
Consequence of Exercise

Position Before Exercise : Exposure	Position After Exercise : Exposure	Lost Attribute
Long Call : Limited Risk Long	Naked: Long Stock : Unlimited Risk Long	OTM Put
Long Call / Short Stock : Limited Risk Short	Flat : None	OTM Put
Long Call / Short Stock / Short Put : Flat	Short Put : Unlimited Risk Long	OTM Put
Naked Long Put : Limited Risk Short	Naked: Short Stock : Unlimited Risk Short	OTM Call
Long Put / Long Stock : Limited Risk Long	Flat : None	OTM Call
Long Put /Long Stock / Short Call : Flat	Short Call : Unlimited Risk Short	OTM Call

Obviously, it would be wise to buy options closer to the money, but prices available at the time of exercise may not be agreeable. In spite of this, the purchase should be made before one exercises, otherwise one will have the exposure of the lost attribute.

Understanding how the exercise can be used as a very high-reward for a low-risk strategy can be useful when an opportunity arises. Professional traders exercise in order to save on carrying costs that are greater than the amount that can be synthetically achieved with a different position configuration, or to collect a dividend when it is greater than the corresponding put plus the carry costs of the stock. This is because carrying costs and dividends can be translated into synthetic premium as a component of an option??s value.

A lot of traders exercise deep in-the-money puts (in order to receive interest on short stock) when the corresponding out-of-the-money calls of the same strike become cheap enough to buy. However, it is often beneficial to cover those cheap out-of the-money calls but hold off exercising. It may be advantageous to wait a while before exercising because the remaining position generates a relatively low-risk / high-reward speculative position to the upside. The following story is about a favorite trade of my career. It was in the CBOT US Treasury Bond options and works a little different than a similar trade in a stock options contract. In the case of stocks, interest is calculated on the stock and the options. In the case of futures contracts, interest is only calculated on the options. Having said that, interest income and expense are also based upon movement in the futures, as was explained in the discussion of futures margin variation.

ohlala
Newbie

To exercise or not
« **Reply #2 on:** September 16, 2005, 07:53:31 PM »

Hi Charles,

First off all thanks for your detailed reply and going over the topic during the webinar. Well guess what, you got me reading over the topic a few times over??. and the more I read the more I want to find out.

I'd like to know if there are any work books/sites etc out there that have examples for which you calculate whether you??d exercise, or not, in the case of renting a call/put and answers for the problems.

With regards to renting options, realistically would a retail trader play such a position, with the high commissions involved not mentioning the initial capital required to initiate the long stock and options or cover for short stock?
I look forward to hearing your input.

Ri$k Doctor
Administrator
Hero Member

To exercise or not
« **Reply #3 on:** September 18, 2005, 06:19:23 PM »

It is very doubtfull that you could buy the package at parity but you could wind up with that after locking in a trade.

Having said that, you could try the order and perhaps a market maker would be motivated to chance acquiring some of the open interest and collect interst.

The synthetic calls that you rent need to have a chance of seeing daylight.

Bengt

Otpimizing
« **on:** September 08, 2005, 10:43:12 PM »

Tharma! If you have the time on this.
Chrales suggested you to comment.
Feel free! :-)

Any input on this will be much appreciated.

There was some software in Sweden that had a SuperIndex based on the following criteria:

(delta x stock price x bis/ask spread x gamma)/(price of option x
Under/Overvalued x tick%)

tick% (meaning how fast the option price moves, I guess that would be similar to gamma)

To this was later added Theta (time decay) and also the tick was changed into more realistic square root of a tick.

Now we are a group of people over here trying to think what more should be included, and should the parameters be multiplied or divided with some numbers to get a better=realistic index balance.

Purpose of the index would be to quickly get a list of candidates
that could then be carefully manually evaluated.

I am personally not so fond of some specail new indexes since you easily lose track of what it covers.
And thinking prices in the futures change so rapidly,
it is better to have a search strategy of preferred parameters of Greeks IV, under-over valued and so on.

So the question is still valis...
IF you had the chanse to configure your own search combination,
how would it look like...with or without a formulae.

I am sure therre is an optimized formulae that must have been solved long ago...in all the
excellent and expensive software that is available. :-)

Charles told me of Hull's book on Options formulae. Are you familiar with
it?

Warm greetings from a sunny Finland.

/Bengt

tharma raj

Otpimizing
« **Reply #1 on:** September 12, 2005, 08:07:24 AM »

Hi Bengt,
I have never seen any formula like this before. Therefore, it would be very helpful if you could provide me with some further information about this formula:
You said that:

"Purpose of the index would be to quickly get a list of candidates that could then be carefully manually evaluated".

I need you to provide more information about what kind of candidates this formula is supposed to find. Is it supposed to find option contracts that will move a lot....i.e. what are the developers of this formula saying about its advantages. Does it help you find trades that are strong directional trades, or expensive option contracts that you can use to sell. It is hard to give you any information about the formula without having a full description about how you have been advised to use this formula as part of a trading strategy.
You say that the tick % is "tick% (meaning how fast the option price moves, I guess that would be similar to gamma)" ....but I still do not understand how this tick% is calculated. It sounds like even though it may be similar to gamma it is not the gamma otherwise it would cancel out with the gamma on the top line of the equation. The best way to provide this information is to show me how this tick% is calculated....
I might then be able to give you more useful feedback "I am personally not so fond of some special new indexes since you easily lose track of what it covers.
And thinking prices in the futures change so rapidly, it is better to have a search strategy of preferred parameters of Greeks IV, under-over valued and so on."
I completely agree with this statement... I prefer to keep things simple. I have found in more own personal experience that if I did not understand the indicators that I was using then it was not a good sign for my trading.
I have not read Hull's book.
I am sure there probably are certain option fromulas for trading but i do not know much about them ...i prefer to use a system where I find stocks that I feel i have a good chance of predicting the directional movement in a 1-2 month timeframes and then I go about looking for an option structure that will match my directional predictions and answer the 5 questions I talked to you about in the previous forum message.
kind regards
Tharma

Bengt

Otpimizing
« **Reply #2 on:** September 12, 2005, 12:57:24 PM »

Good reply Tharma.

I agree 100%, and have sort of reevaluated this "super-index"
It's not a good solution at all, when you loose the control over what it is displaying.
Better with a general search profile, you can edit as you wish.

This index has existed though and was devolped some years ago for a very competative SW that was unfortunately dropped due to bad cost/profit profile of the business. Too few option/warrants traders over here i guess. (or too poor) ;-))

Any way let's keep this thread running Tharma.

If we consider no new index, just a simple editable search profile, where you enter one of the following very basic criterias:

Like an exampel
Bullish, <1m or 1-2 m or >2 month
or
Neutral <1m or 1-2 m or >2 month
or
Bearich <1m or 1-2 m or >2 month

And then following criterias that you add yourself to search for...
like
max, min values for Greeks...volatility, spread ... and so on, you name it.

What would be your favourite profile to keep things as simple as possible and at the same time not get too many hits.
I think you get the general idea.
Today with the SW we have over here you have to do a cumbersome clicking through all options and print them out with greeks and all...and then sit with the printout and a pen to find your combinations for a good trade.
THATS what we want this search tool to do.
Greetings from Finland
/B

tharma raj

Otpimizing
« **Reply #3 on:** September 12, 2005, 01:30:56 PM »

Hi Bengt,

Personally I use a system where I look at stocks that may be good trending candidates and good channeling candidates.

I then decide on the appropriate option structure in line with my predicted direction and by asking myself the 5 questions I posted in that last form that we talked about.

I do not use any screening process lke the greeks, volatility spread or price. i look at the stock price movements that i like and then I choose the appropriate option structure and then I choose the option structures that gives me the best reward to risk ratios.

kind regards

Tharma

Ri$k Doctor
Administrator
Hero Member

Otpimizing
« **Reply #4 on:** September 14, 2005, 07:42:16 AM »

I agree with Tharma.

Those software guys really know how to market themselves but does the software serve you? Garbage in -- garbage out.

You must look at one trade, one underlying at a time and not have this SW find you a list of Holy Grail trades. There is no Holy Grail Trade.

Analyze one situation at a time and place your bet.

Fund managers who need places to park their billions need tools that can do these sorts of things as they diversify thoughout the universe and the issues that loose are hopefully offset by their positions that win.

Bengt

Otpimizing
« **Reply #5 on:** September 14, 2005, 12:00:31 PM »

Ok Charles.
You have a point the personal analysis is the key.
No Holy Grails! I agree with that.

But ... do you really mean that the prasing you are making for Spreadhunter, is nothing for us private investors?

Quote: from Spreadhunter.com

"SpreadHunter?? filters through searches with lightning quick speed in a robust environment as market created opportunities arise, allowing the user to scoop up exactly what he or she is looking for, whatever it may be. The dedication to speed, accuracy and robust durability is second to none for only one reason. It has to be, simply because the SpreadHunter clientele are the cr?¨me of the crop professionals whose shrunken edge has boiled down to speed and efficiency. No other system can match SpreadHunter??s functionality."

Charles M. Cottle
Author, Options Perception and Deception
Former Market Maker, CBOE, CBOT

Ri$k Doctor
Administrator
Hero Member

Otpimizing
« **Reply #6 on:** September 16, 2005, 06:47:05 AM »

Not for beginners.

Bengt

Selling premium

« **on:** September 04, 2005, 11:54:31 PM »

In reference to the previous questions... (see "Checklist" which actually involved many...different questions, I want to focus this mailing purely on selling premium.

Charles have you anything on this in your new CWS?
If not I strongly suggest you add some rules, with examples.

Importent question "How to optimize profit and minimize risk"

Charles you clearly warn against selling NAKED PUTS!

Welldeserved warning...many sad stories about totallly broken traders with that very dangerous approach!

On the other hand you also clearly states that the big players make most of the money selling premiums. (puts and calls)

So how to protect those vulnerable positions.

In my previous position taking (see "Checklist"
I am selling premium by shorting puts
+ adding a bought position.

HOW EXACTLY SHOULD THAT BOUGHT PROTECTION BE CONSIDERED Charles?

In different market conditions bull, bear, sideways going...(sounds most dangerous)

Not to loose to much profit from the selling
and not to endanger a sharp fall in the market
that might totally wipe me out!
(considering minor money saved behind position)

Do you have any samples...in your book...or previous online answers?

Regards

/Bengt

Ri$k Doctor
Administrator
Hero Member

Selling premium

« **Reply #1 on:** September 12, 2005, 05:51:54 AM »

I am a bit confused as to what you are asking but if I am correct, the bought protection (1:1), against a naked short put, implies a bull spread now.

Question would you put on that particular credit spread at that price? If you cannot answer that, would you buy the same strike call debit vertical for the reciprocal amount (strike difference minus put credit spread*)?

The risk tolerance is different for everyone so there is no right or wrong.

Also, I don't insist but only encourage. A well diversified and well capitalized account can have a relatively small amount of naked short premium.

*This example ignores interest, dividends and early exercise premium.

Bengt

Checklist

« **on:** September 02, 2005, 09:14:59 AM »

Hello friends, and especially to Charles.

First I like to apologize to all those that might find some of my question simple.

Yes, I confess I am a beginner in options, although not completely green onion, thanks to Charles excellent book CWS. :-)

I hope there is room for beginners question also outside the RD1 course.

So here we go...

Before takeoff TAKING A POSITION, we (I) need a clear checklist.

Lets consider the following scenario:
I slight bearish market.
I have found a good candidate for a call position.

Like Lundin Oil for example.

Targets:
Sep 105 SEK
Oct 115 SEK

before I am putting my vertical spread on,
(or something else suggested)
I want to check the greeks and volatility.

So of all these 10 variables, what to focus on?
Undervalued, Delta, Gamma... volatility of stock... of option... and in which priority order. See image of todays values.
Or is it so that only what strikes to take for the vertical, has value when entering a position, and the Greeks and others come in later when position should be changed?

Todays strike is 97.50 (SEK about $9) historical vola. for the stock is 57 (30 Days) average implied volatility for all options (same underlying) 62.9. I hope the swedish/english in the pict will be clear and understandable.

I have learned a basic rule like;
Less than 1 month to expiration only positions ITM 1-2 months: ATM (or closest to ATM) greater than 2 months: OTM

Now these rules I have found in option books, so they might be challenged. Charles, please confirm or correct.

I have decided on the following spreads:
+10 OCT 100c/+10 OCT 105c/-20 OCT 110c with a cost of 3300SEK Debit ($330)
and
-10 OCT 105p/ -10 OCT 100p / -20 OCT 95p
and
buy + 40 OCT 75p as protection with a Credit of 21500SEK ($2150)
and
+10 NOV 110c / +10 NOV 115c / -20 NOV 120 with a cost of 1090SEK debit ($109)

A couple of questions arise now in my mind.

First and most important, is the +40 OCT 75p enough protection if the market breaks heavily downward?
Not so likely but you teach us to ALLWAYS have some protection for the naked sold puts.

Or should the bought protection be closer to the sold premiums and/or with more contracts?
What is a rule of thumb and experience to protect when selling premiums?

My bear calls are made up of two bought calls and one sold, in order to have more spread then the usual one bought and one sold call at higher strike.

Does that wider spread make sense...?

Try to let us (especially me) clearly follow your thinking process and the priorities of parameters when buying.

If anything is unclear, please tell me and I will add the info missing.

Aktie=Stock
Vinnare=Winner
F'rlorare=Losers

Optioner/Terminer Lundin Petroleum

Typ: C | Lösendag: 2005-01-01 - 2006-01-01 | Lösenpris: 5.00 - 10.00

Max Spread: 0.02 | Dölj kursinfo exkl Köp,Sälj

Namn	ImpK%	ImpS%	ImpM%	Delta	Gamma	Theta	Vega	Elasticitet	Spread	Break-even	...	Säljkurs	Teori (Hist)	Övervärdering	Mar
LUPE5J100	30.8	35.4	33.1	0.468	0.0312	-0.0561	14.350	10.7	0.17	104.25	....	4.25	7.36	0.58	OM
LUPE5J105	31.2	38.9	35.1	0.345	0.0262	-0.0557	13.292	11.2	0.40	108.00	....	3.00	5.49	0.55	OM
LUPE5J110	30.0		24.3						-2.00	110.00	....	0.00	4.02		OM
LUPE5J37.50		208.9		0.948	0.0014	-0.0831	3.811	1.5	0.08	100.00	....	62.50	60.23	1.04	OM
LUPE5J40		196.2		0.945	0.0016	-0.0825	4.012	1.5	0.09	100.00	....	60.00	57.75	1.04	OM
LUPE5J42.50		184.4		0.941	0.0018	-0.0818	4.217	1.6	0.09	100.00	....	57.50	55.26	1.04	OM
LUPE5J45		173.3		0.938	0.0020	-0.0810	4.426	1.7	0.10	100.00	....	55.00	52.78	1.04	OM
LUPE5J47.50		162.8		0.934	0.0022	-0.0802	4.640	1.7	0.10	100.00	....	52.50	50.29	1.04	OM
LUPE5J50		152.9		0.930	0.0024	-0.0792	4.860	1.8	0.11	100.00	....	50.00	47.81	1.05	OM
LUPE5J52.50		143.6		0.926	0.0027	-0.0782	5.087	1.9	0.11	100.00	....	47.50	45.33	1.05	OM
LUPE5J55		134.6		0.921	0.0030	-0.0771	5.323	2.0	0.12	100.00	....	45.00	42.85	1.05	OM
LUPE5J57.50		92.6		0.958	0.0027	-0.0381	3.220	2.3	0.05	98.50	....	41.00	40.38	1.02	OM
LUPE5J60		85.9		0.956	0.0030	-0.0354	3.359	2.4	2.00	98.50	....	38.50	37.92	1.02	OM
LUPE5J65		73.2		0.951	0.0038	-0.0340	3.666	2.8	0.06	98.50	....	33.50	33.06	1.01	OM
LUPE5J70		61.5		0.945	0.0050	-0.0325	4.029	3.2	0.05	98.50	....	28.50	28.33	1.01	OM
LUPE5J75		55.6		0.920	0.0074	-0.0378	5.349	3.8	0.09	98.75	....	23.75	23.82	1.00	OM
LUPE5J80		48.5	30.3	0.880	0.0108	-0.0413	6.795	4.6	0.10	99.00	....	19.00	19.63	0.97	OM
LUPE5J85		48.7	34.1	0.812	0.0153	-0.0554	9.727	5.3	0.18	100.00	....	15.00	15.85	0.95	OM
LUPE5J90	29.0	42.6	36.1	0.734	0.0214	-0.0581	11.835	6.7	0.15	100.75	....	10.75	12.52	0.86	OM
LUPE5J95	30.2	41.2	35.7	0.613	0.0258	-0.0636	13.815	8.0	0.22	102.50	....	7.50	9.70	0.77	OM
LUPE5K100	31.7	40.0	35.9	0.503	0.0221	-0.0515	17.986	7.5	0.26	106.50	....	6.50	9.55	0.68	OM
LUPE5K105	31.1	39.3	35.2	0.396	0.0217	-0.0481	17.370	8.6	0.37	109.50	....	4.50	7.63	0.59	OM
LUPE5K110	32.0	38.7	35.4	0.298	0.0199	-0.0420	15.820	9.7	0.40	113.00	....	3.00	6.04	0.50	OM
LUPE5K115	31.3	38.4	35.6	0.223	0.0168	-0.0385	13.464	10.4	0.62	117.10	....	2.10	4.74	0.44	OM
LUPE5K120	29.1	40.1	35.2	0.164	0.0137	-0.0304	11.186	11.1	1.05	121.45	....	1.45	3.89	0.39	OM
LUPE5K55		105.4		0.925	0.0030	-0.0487	6.392	2.0	0.12	100.00	....	45.00	43.12	1.04	OM
LUPE5K57.50		98.5		0.920	0.0033	-0.0479	6.675	2.1	0.12	100.00	....	42.50	40.70	1.04	OM
LUPE5K60		92.0		0.916	0.0037	-0.0471	6.972	2.2	0.13	100.00	....	40.00	38.31	1.04	OM
LUPE5K65		82.9		0.899	0.0047	-0.0488	7.980	2.5	0.15	100.25	....	35.25	33.83	1.05	OM
LUPE5K70		88.2		0.892	0.0060	-0.0435	8.346	2.9	0.14	100.00	....	30.00	29.16	1.03	OM
LUPE5K75	60.0	25.1	0.868	0.0079	-0.0443	9.620	3.4	0.17	100.25	....	25.25	24.97	1.01	OM	
LUPE5K80	49.5	32.2	0.847	0.0106	-0.0415	10.674	4.1	0.16	100.25	....	20.25	21.10	0.96	OM	

Warm Greetings

/Bengt
Finland

Namn	ImpK%	ImpS%	ImpM%	Delta	Gamma	Theta	Vega	Elasticitet	Spread	Break-even	...	Teori (Hist)	Övervärdering	Marknad	Land
LUPE5J100	30.8	35.4	33.1	0.468	0.0312	-0.0561	14.354	10.7	0.17	104.25	....	7.36	0.58	OM	SE
LUPE5J95	30.2	41.2	35.7	0.613	0.0258	-0.0636	13.819	8.0	0.22	102.50	....	9.70	0.77	OM	SE
LUPE5J90	29.0	42.6	36.0	0.734	0.0214	-0.0580	11.838	6.7	0.15	100.75	....	12.53	0.86	OM	SE
LUPE5J105	31.2	38.9	35.1	0.345	0.0262	-0.0557	13.296	11.2	0.40	108.00	....	5.49	0.55	OM	SE
LUPE5K85		37.1	28.7	0.827	0.0153	-0.0355	11.544	5.4	0.12	100.00	....	17.61	0.85	OM	SE
LUPE5K110	32.0	38.7	35.4	0.298	0.0199	-0.0420	15.622	9.7	0.40	113.00	....	6.04	0.50	OM	SE
LUPE5K100	31.7	40.0	35.8	0.503	0.0221	-0.0515	17.989	7.5	0.26	106.50	....	9.55	0.68	OM	SE
LUPE5K95	30.4	37.7	34.1	0.615	0.0225	-0.0481	17.242	7.0	0.16	103.50	....	11.84	0.72	OM	SE
LUPE5J80		48.5	30.2	0.890	0.0108	-0.0413	6.796	4.6	0.10	99.00	....	19.63	0.97	OM	SE
LUPE6B95	30.3	42.2	36.2	0.620	0.0136	-0.0374	25.257	4.6	0.26	108.25	....	16.99	0.78	OM	SE
LUPE5J65		73.2		0.951	0.0038	-0.0340	3.667	2.8	0.06	98.50	....	33.06	1.01	OM	SE
LUPE5J55		134.6		0.921	0.0030	-0.0770	5.325	2.0	0.12	100.00	....	42.85	1.05	OM	SE
LUPE5J70		61.5		0.945	0.0050	-0.0325	4.029	3.2	0.05	98.50	....	28.33	1.01	OM	SE
LUPE5K80	29.0	44.2	36.9	0.706	0.0173	-0.0511	15.544	5.5	0.20	102.50	....	14.52	0.86	OM	SE
LUPE6B100	32.9	38.6	35.8	0.546	0.0155	-0.0354	26.300	5.3	0.16	110.00	....	14.81	0.68	OM	SE
LUPE5W									0.01		....			OM	SE
LUPE5V									0.01		....			OM	SE
LUPE5J60		85.8		0.956	0.0030	-0.0354	3.359	2.4	2.00	98.50	....	37.92	1.02	OM	SE
LUPE5K105	31.1	39.3	35.2	0.396	0.0217	-0.0480	17.373	8.6	0.37	109.50	....	7.63	0.59	OM	SE
LUPE6N									0.01		....			OM	SE
LUPE6B80		64.5		0.915	0.0038	-0.0256	10.306	2.2	0.13	100.75	....	40.04	1.02	OM	SE
LUPE5W115	31.3	53.0	43.1	-0.696	0.0146	-0.0428	15.781	-3.3	0.16	94.50	....	21.14	0.97	OM	SE
LUPE5W120		58.4	43.9	-0.725	0.0127	-0.0444	15.038	-2.8	0.17	94.75	....	25.05	1.01	OM	SE
LUPE6B65		57.7		0.900	0.0046	-0.0263	11.644	2.4	0.15	101.00	....	35.92	1.00	OM	SE
LUPE6B80	21.1	43.0	33.9	0.814	0.0094	-0.0296	17.759	3.5	0.14	102.50	....	25.15	0.89	OM	SE
LUPE6B85	26.8	42.4	35.0	0.755	0.0112	-0.0329	20.838	3.9	0.17	104.00	....	22.15	0.86	OM	SE
LUPE6B70		51.2	30.4	0.882	0.0058	-0.0286	13.124	2.8	0.14	101.25	....	32.05	0.98	OM	SE
LUPE6B75		48.2	33.2	0.848	0.0074	-0.0291	15.612	3.1	0.16	102.00	....	28.46	0.95	OM	SE
LUPE5W110	30.6	49.7	40.6	-0.643	0.0166	-0.0440	16.815	-3.9	0.20	93.75	....	17.49	0.93	OM	SE
LUPE5W65	32.4	59.0	51.4	-0.049	0.0038	-0.0165	4.555	-7.9	1.93	64.40	....	0.51	1.17	OM	SE
LUPE5W70	27.0	53.0	45.5	-0.065	0.0053	-0.0185	5.723	-8.5	1.95	69.25	....	0.99	0.75	OM	SE
LUPE5W57.50										57.50	....	0.15		OM	SE

Second image sorted on winners:

Max Spread 0.02 Dölj kursinfo exkl Köp,Sälj

Namn	ImpK%	ImpS%	ImpM%	Delta	Gamma	Theta	Vega	Elasticitet	Spread	Break-even	...	Säljkurs	Teori (Hist)	Övervärdering
LUPE5J100	30.8	35.4	33.1	0.468	0.0312	-0.0561	14.350	10.7	0.17	104.25	....	4.25	7.36	0.58
LUPE5J105	31.2	38.9	35.1	0.345	0.0262	-0.0557	13.292	11.2	0.40	108.00	....	3.00	5.49	0.55
LUPE5J110	30.0		24.3						-2.00	110.00	....	0.00	4.02	
LUPE5J37.50		208.9		0.948	0.0014	-0.0831	3.811	1.5	0.08	100.00	....	62.50	60.23	1.04
LUPE5J40		196.2		0.945	0.0016	-0.0825	4.012	1.5	0.09	100.00	....	60.00	57.75	1.04
LUPE5J42.50		184.4		0.941	0.0018	-0.0818	4.217	1.6	0.09	100.00	....	57.50	55.26	1.04
LUPE5J45		173.3		0.938	0.0020	-0.0810	4.426	1.7	0.10	100.00	....	55.00	52.78	1.04
LUPE5J47.50		162.8		0.934	0.0022	-0.0802	4.640	1.7	0.10	100.00	....	52.50	50.28	1.04
LUPE5J50		152.9		0.930	0.0024	-0.0792	4.860	1.8	0.11	100.00	....	50.00	47.81	1.05
LUPE5J52.50		143.5		0.925	0.0027	-0.0782	5.087	1.9	0.11	100.00	....	47.50	45.33	1.05
LUPE5J55		134.6		0.921	0.0030	-0.0771	5.323	2.0	0.12	100.00	....	45.00	42.85	1.05
LUPE5J57.50		92.6		0.958	0.0027	-0.0361	3.220	2.3	0.05	98.50	....	41.00	40.38	1.02
LUPE5J60		85.9		0.956	0.0030	-0.0354	3.359	2.4	2.00	98.50	....	38.50	37.92	1.02
LUPE5J65		73.2		0.951	0.0038	-0.0340	3.666	2.8	0.06	98.50	....	33.50	33.06	1.01
LUPE5J70		61.5		0.945	0.0050	-0.0325	4.029	3.2	0.05	98.50	....	28.50	28.33	1.01
LUPE5J75		55.8		0.920	0.0074	-0.0378	5.349	3.8	0.09	98.75	....	23.75	23.82	1.00
LUPE5J80		48.5	30.3	0.890	0.0108	-0.0413	6.795	4.6	0.10	99.00	....	19.00	19.63	0.97
LUPE5J85		48.7	34.1	0.812	0.0153	-0.0554	9.727	5.3	0.18	100.00	....	15.00	15.85	0.95
LUPE5J90	29.0	42.6	36.1	0.734	0.0214	-0.0581	11.835	6.7	0.15	100.75	....	10.75	12.52	0.86
LUPE5J95	30.2	41.2	35.7	0.613	0.0258	-0.0636	13.815	8.0	0.22	102.50	....	7.50	9.70	0.77
LUPE5K100	31.7	40.0	35.8	0.503	0.0221	-0.0515	17.986	7.5	0.26	106.50	....	6.50	9.55	0.68
LUPE5K105	31.1	39.3	35.2	0.396	0.0217	-0.0481	17.370	8.8	0.37	109.50	....	4.50	7.63	0.59
LUPE5K110	32.0	38.7	35.4	0.298	0.0199	-0.0420	15.620	9.7	0.40	113.00	....	3.00	6.04	0.50
LUPE5K115	31.3	39.4	35.6	0.223	0.0168	-0.0365	13.464	10.4	0.62	117.10	....	2.10	4.74	0.44
LUPE5K120	29.1	40.1	35.2	0.164	0.0137	-0.0304	11.166	11.1	1.05	121.45	....	1.45	3.69	0.39
LUPE5K55		105.4		0.925	0.0030	-0.0487	6.392	2.0	0.12	100.00	....	45.00	43.12	1.04
LUPE5K57.50		98.5		0.920	0.0033	-0.0479	6.675	2.1	0.12	100.00	....	42.50	40.70	1.04
LUPE5K60		92.0		0.916	0.0037	-0.0471	6.972	2.2	0.13	100.00	....	40.00	38.31	1.04
LUPE5K65		82.9		0.898	0.0047	-0.0488	7.980	2.5	0.15	100.25	....	35.25	33.63	1.05
LUPE5K70		88.2		0.892	0.0060	-0.0435	8.346	2.9	0.14	100.00	....	30.00	29.18	1.03
LUPE5K75		80.0	25.1	0.868	0.0078	-0.0443	9.620	3.4	0.17	100.25	....	25.25	24.97	1.01
LUPE5K80		48.5	32.2	0.847	0.0106	-0.0415	10.874	4.1	0.16	100.25	....	20.25	21.10	0.96

Max Spread 0.02 Dölj kursinfo exkl Köp,Sälj

Namn	ImpK%	ImpS%	ImpM%	Delta	Gamma	Theta	Vega	Elasticitet	Spread	Break-even	...	Teori (Hist)	Övervärdering	Marknad
LUPE5J100	30.8	35.4	33.1	0.468	0.0312	-0.0561	14.354	10.7	0.17	104.25	....	7.36	0.58	OM
LUPE5J95	30.2	41.2	35.7	0.613	0.0258	-0.0636	13.819	8.0	0.22	102.50	....	9.70	0.77	OM
LUPE5J90	29.0	42.5	36.0	0.734	0.0214	-0.0580	11.838	6.7	0.15	100.75	....	12.53	0.86	OM
LUPE5J105	31.2	38.9	35.1	0.345	0.0262	-0.0557	13.296	11.2	0.40	108.00	....	5.49	0.55	OM
LUPE5K85		37.1	28.7	0.827	0.0153	-0.0355	11.544	5.4	0.12	100.00	....	17.81	0.85	OM
LUPE5K110	32.0	38.7	35.4	0.298	0.0199	-0.0420	15.622	9.7	0.40	113.00	....	6.04	0.50	OM
LUPE5K100	31.7	40.0	35.8	0.503	0.0221	-0.0515	17.989	7.5	0.26	106.50	....	9.55	0.68	OM
LUPE5K95	30.4	37.7	34.1	0.615	0.0225	-0.0481	17.242	7.0	0.18	103.50	....	11.84	0.72	OM
LUPE5J80		48.5	30.2	0.890	0.0108	-0.0413	6.796	4.6	0.10	99.00	....	19.63	0.97	OM
LUPE6B95	30.3	42.2	36.2	0.620	0.0136	-0.0374	25.257	4.6	0.26	108.25	....	16.99	0.78	OM
LUPE5J65		73.2		0.951	0.0038	-0.0340	3.667	2.8	0.06	98.50	....	33.06	1.01	OM
LUPE5J55		134.6		0.921	0.0030	-0.0770	5.325	2.0	0.12	100.00	....	42.85	1.05	OM
LUPE5J70		61.5		0.945	0.0050	-0.0325	4.029	3.2	0.05	98.50	....	28.33	1.01	OM
LUPE5K90	29.0	44.2	36.9	0.706	0.0173	-0.0511	15.544	5.5	0.20	102.50	....	14.52	0.86	OM
LUPE6B100	32.9	38.6	35.8	0.546	0.0155	-0.0354	26.300	5.3	0.18	110.00	....	14.81	0.88	OM
LUPE5W									0.01		....			OM
LUPE5Y									0.01		....			OM
LUPE5J60		85.8		0.956	0.0030	-0.0354	3.359	2.4	2.00	98.50	....	37.92	1.02	OM
LUPE5K105	31.1	39.3	35.2	0.396	0.0217	-0.0480	17.373	8.6	0.37	109.50	....	7.63	0.59	OM
LUPE6N									0.01		....			OM
LUPE6B60		64.5		0.915	0.0036	-0.0258	10.306	2.2	0.13	100.75	....	40.04	1.02	OM
LUPE5W115	31.3	53.0	43.1	-0.696	0.0146	-0.0428	15.781	-3.3	0.18	94.50	....	21.14	0.97	OM
LUPE5W120		58.4	43.9	-0.725	0.0127	-0.0444	15.038	-2.8	0.17	94.75	....	25.05	1.01	OM
LUPE6B65		57.7		0.900	0.0046	-0.0263	11.644	2.4	0.15	101.00	....	35.92	1.00	OM
LUPE6B80	21.1	43.0	33.9	0.814	0.0094	-0.0296	17.759	3.5	0.14	102.50	....	25.15	0.89	OM
LUPE6B85	26.8	42.4	35.0	0.755	0.0112	-0.0329	20.838	3.9	0.17	104.00	....	22.15	0.86	OM
LUPE6B70		51.2	30.4	0.882	0.0058	-0.0266	13.124	2.8	0.14	101.25	....	32.05	0.98	OM
LUPE6B75		48.2	33.2	0.848	0.0074	-0.0291	15.612	3.1	0.16	102.00	....	28.46	0.95	OM
LUPE5W110	30.6	49.7	40.6	-0.643	0.0166	-0.0440	16.815	-3.9	0.20	93.75	....	17.49	0.93	OM
LUPE5W65	32.4	59.0	51.4	-0.049	0.0038	-0.0165	4.555	-7.9	1.93	64.40	....	0.51	1.17	OM
LUPE5W70	27.0	53.0	45.5	-0.065	0.0053	-0.0185	5.723	-8.5	1.95	69.25	....	0.99	0.75	OM
LUPE5W57.50										57.50	....	0.15		OM

tharma raj

Checklist
« **Reply #1 on:** September 04, 2005, 04:07:01 PM »

Hi bdp003

You asked a lot of great questions that are relevant and important to consider when one is thinking about putting on an option trade.

Before I go on any further I should say that it seems like there is a general theme to a lot of your questions which is that you are wondering whether there are specific rules for making certain decisions about an option trade. This is something I used to wonder as well when I first started trading options.

I have been learning from Charles for quite a while now and from what I can see, Charles gives traders great tools to help assess and manage risk.... but not specific rules about trading. I think, one of the reasons for this is that we are all different traders with different personalities and psychology... so what may be good trading rules for me may not be good trading rules for you!

Let me explain. If I liked to have a lot of winning trades because I did not like being wrong about my trades then I might choose trades that had a higher winning probability but that had a lower return (example ITM verticals). However, if you had a psychological makeup where you could take a lot of losing trades as long as you had one trade that was a huge winner you may be able to trade just OTM verticals with large reward to risk ratios. So, clearly, you may favor a different sort of vertical to me... as such it is very hard to give standardized rules that are applicable to everybody. Although certain books give rules like

I have learned a basic rule like;
Less than 1 month to expiration only positions ITM
1-2 months: ATM (or closest to ATM)
Greater than 2 months: OTM

it is important to ask yourself whether these rules are appropriate for you and for the type of trading system you have.

Now, in the specific example you have given you seem to have a bullish price prediction (current price is 97.5) and you expect the stock to move to 105 by September expiry and 115 by OCT expiry. Implied volatility is approx 62% and we need to know what you expect to happen to the IV over the next 1-2 month period. Do you expect the IV to rise , fall or stay at its current levels.

For example, if we expected IV to rise then a straight Sept. 100 call could be considered. If we expected IV to fall and the stock to finish at 105 by Sept. expiry a 100/105/110 butterfly could be appropriate. If we wanted to concentrate on playing the bullish directional move and we want to neutralize the role that IV plays in the option trade's value we may want to consider a 100/105 bull vertical.

All the three above mentioned trades are bullish. So which one should you choose? One way to decide is based on which risk profile you are most in agreement with. To dissect the risk profile of each of these trades, look at the Greek values in each trade, see how you expect these Greek values to change over time and then decide based on these expectations which risk profile you are most in agreement with. Also, it is important to look at which reward to risk profile is right for each of us.... some people are happy with a ratio that makes $1 and risks $4 but has a high probability of winning whilst other people prefer systems where they risk $1 to make $4. Again we find it is a very individual question.

In the same way, when you ask whether the "40p75" is enough protection for your modified bullish put verticals.... you are the only one that can really answer this question. The questions you need to ask is, given this level of protection what kind of risk am I taking, what type of reward to I get for taking this risk and am I happy to accept this level of risk for this level of reward? Once you start to find the answers to these questions you can start to figure out whether this is an adequate level protection for you in this trade.

To summarize when entering any option trade the important questions that one must ask oneself are:
1. What is the predicted directional move and the predicted magnitude of this move?
2. What is the current IV and how do I expect the IV to change between now and option expiry?
3. Based on my directional and IV predictions as outlined in 1 & 2 above what types of option structures could I consider?- I gave you 3 possible examples above of option structures that could be considered in the bullish case example you provided.
4. When I compare the Greek risk profile of these option structures which one do I like the best?
5. Am I happy with the overall reward: risk profile in my chosen option structure?

When you get good at answering questions 1-5 above you will find that you are a lot closer to deciding which option structure is more suitable to meet your individual objectives.

Hope this is helpful

kind regards

Tharma

Checklist
« **Reply #2 on:** September 05, 2005, 01:46:57 AM »

Thanks a lot Tharma.
That reply made a lot of sencse to me.

I know Charles is very busy... so I am pleased to get responses from his pupils instead. :-)

The only question still remaining ... is there not statistically a risk/reward relationship that could be used to choose the protection for the sold puts.

I mean looking back in history (removing those pitch dark events like 87 crash...), I would like to see some statistics...

What are the percentage over a yearly trading... premiums of put or calls... if you choose the profile I suggested as example... and compare that to buying smaller amount of more expensive(=more safety at larger cost=less profit) options just one strike below the lowest sold put. Or two strikes down... or three ...and so on.

There would be some curves showing the statistics so the proper risk/reward level can be chosen.

Then what is proper... like you say Tharma, is up to each trader.

At least I would like to have the % as a solid (?) ground to stand on :-)

/Bengt
Finland

tharma raj

Checklist
« **Reply #3 on:** September 05, 2005, 02:58:59 AM »

Hi Bengt,

You are very welcome and I am happy to help! This is another really good question!

I know that with option pricing models like the Black-Scholes model it assumes that stock price movement is random and that it approximates a normal distribution curve. However, Sheldon Natenburg in his book " Option Volatility and Pricing" has shown that when historical data has been used the prices changes in the underlying instrument tend to approximate a normal distribution curve but with the following differences:

1. They have higher peaks (more days with smaller moves)
2. They have more elongated tails (more days with big moves)
3. They have narrower mid-sections (fewer days with intermediate moves).

Another way you could look at the probability of certain moves occuring is to look at the implied volatility in the marketplace and calculate the future implied probability of the volatility in the underlying instrument. At this point I do not know how much you do know about implied volatility but Charles has done some great discussions about it and the book I referred to above has some really great discussions about volatility.

Anyway, using the implied volatility one can start to make estimates about what the market is saying about the probability of certain price movements in the underlying instrument.
To calculate the potential movement of the underlying contract (Volatility is proportional to the square root of time) use the following formulas:

1. [(Annualized Volatility/ Square root of Time period) x Current Underlying Stock price] / 100
2. E.g. if stock price is 100, annual volatility is 20% what is the 1std for the daily, weekly and monthly volatilities:
a. Daily Volatility = [(20%/√256 trading days) x 100]/100 = 1.25 (Daily 1std.= +/- 1.25). In 1 day there is a 68% probability that the price range will be within 98.75 and 101.25)
b. Weekly Volatility = [(20%/√52) x 100]/100 = 2.77 (Weekly 1std = +/-2.77). In 1 week there is a 68% probability that the price will be between 97.33 and 102.77
c. Monthly Volatility = [(20%/√12) x100]/100 = 5.77 (Monthly 1std = +/- 5.77). In 1 month there is approximately a 68% probability that the price range will be within 94.33 and 105.77)

However, if you want more specific information about...."some curves showing the statistics so the proper risk/reward level can be chosen"..... I don't know what software package or service could give you this information but I am sure Charles may be able to give you some information about this.

Finally, I would like to make the point that all our discussion here has focused on assessing the risk at entry..... but I think you recognize that it is important to remember that this is only one facet of a good trading approach. Other important areas to manage risk to also consider:
1. Managing the risk profile during the life of the trade - we do a lot of work on this in the RD2 and Rd3 webinars.
2. Porfolio diversification.
Hope this answers your question!
Kind regards
Tharma

Bengt

Checklist

« **Reply #4 on:** September 05, 2005, 04:35:01 AM »

Very good Tharma.

You are leading me step by step towards more understanding. :-)
Great!

Yes, I have read Charles writings about volatility, which is quite a complex subject.

I understand you have to guess very much in regard to the volatility 1 month ahead.

Here are the facts of today:

Lundin latest at strike 94.50

Historical Volatility (30 day) 58.7
(I understand this to be an average for the underlying stock)

Implied Volatility Average 63
(all options for the underlying)

Last month the 95 call had a HIGH: 44, Low:3, Last: 37

I understand this to be VERY volatile (almost extreme to what I have seen before)

So how do you put all this together, Tharma?

My impression, would be this:
The Oil has been dramatically volatile due to the shocking increase in the price of Oil.
If Oil continues to rise, the price might explode, and my targets will be well ITM.
So I would be prepared to roll the whole spread up as the price shoots higher, being prepared for later corrections at some point.

Correct analysis or did I miss anything, Tharma?

All the best!
/Bengt

tharma raj

Checklist

« **Reply #5 on:** September 05, 2005, 05:02:21 AM »

Hi Bengt

You are very welcome.

It would be easier for me to see if you are missing anything if you use the 5 questions I outlined in my previous message and write some specific answers to each question as best as you can. This will allow me to give you a better answer.

The 5 questions were:

1. What is the predicted directional move and the predicted magnitude of this move and what time period do you expect this move to occur? (Remember this is only what your prediction is today whether you are right or worng only time will tell).
2. What is the current IV (you answered this first part) and how do I expect the IV to change between now and option expiry?
3. Based on my directional and IV predictions as outlined in 1 & 2 above what types of option structures could I consider?- I gave you 3 possible examples above of option structures that could be considered in the bullish case example you provided in the previous message.
4. When I compare the Greek risk profile of these option structures which one do I like the best and why?
5. Am I happy with the overall reward: risk profile in my chosen option structure?

Don't worry if you do not feel your answers are right the important thing is to have a systematic approach in your thinking when you start to analyse an option trading opportunity.

By the way did you enjoy the World Athletics held in your part of the world recently!

kind regards

Tharma

Bengt

Checklist

« **Reply #6 on:** September 05, 2005, 09:34:11 AM »

>It would be easier for me to see if you are missing anything if you use the 5 questions I outlined in my previous message and write some specific answers to each question as best as you can. This will allow me to give you a better answer.

>The 5 questions were:

>1. What is the predicted directional move and the predicted magnitude of this move and what time period do you expect this move to occur? (Remember this is only what your prediction is today whether you are right or worng only time will tell).

Ok, I thought I was clear about targets:

Around 105 in OCT
Around 115 in NOV

>2. What is the current IV (you answered this first part) and how do I expect the IV to change between now and option expiry?

I also showed this in my previous reply:
"I expect at least the price has a possability to explode..."
How this will relate to volatility I do not know.
I understand volatility as the more the market is unsure about the future...the more volatility jumps up and down...
Correct?

I have no clue as to the value of implied volatility, 1 or 2 months from now.

What do you think it could be Tharma?

>3. Based on my directional and IV predictions as outlined in 1 & 2 above what types of option structures could I consider?
I gave you 3 possible examples above, of option structures that could be considered in the bullish case example you provided in the previous message

Ok

>4. When I compare the Greek risk profile of these option structures which one should I like the best and why?

Could you explain how you relate and value the influence and importants of each Greek.

>5. Am I happy with the overall reward: risk profile in my chosen option structure?

Ok, I understand this.
Like I said I think to hit the target for OCT ATM 105
and maybe buy spread with target a little higher, like 120 in NOV.

>Don't worry if you do not feel your answers are right the important thing is to have a systematic approach in your thinking when you start to analyse an option trading opportunity.

This I totally agree...like I tell my children,,,whats the point of going to school if you allready know everything = is allways right.

Learning is part of the life journey...thanks for helping in that journey, Tharma! :-)

>By the way did you enjoy the World Athletics held in your part of the world recently!

Yes we did...but from a distance 400 km to the North, watching TV at the grandparents. :-)
Lucky us as it was flooding with rain in Helsinki.

/Bengt

tharma raj

Checklist

« **Reply #7 on:** September 06, 2005, 03:03:27 AM »

Hi Bengt,

Becasue there are a lot of variables to consider let us take a simple example after we review the answers to each of the questions I asked you.

Q1. You have a price target of 105 by October expiry so you are quite bullish. So we know we need a bullish trade and we know that if we use October options they would profit if the stock got close to the prediction of 105.

Q2. IV at the moment is high as one would expect in this stock because the market is very uncertain about the fair price and because of the large recent moves in this instrument. Now you say that you have no idea about volatility in 1-2 months so another way of saying this is that you don't want to have an option structure that will expose you to a low level of volatility risk. So this is another bit of information we know you need to be reflected in the option structure that you choose.

Q3. A simple structure that will reflect your bullish directional stance could be a bullish call vertical like a:

1.90/95 call vertical
2.95/100 call vertical
3.100/105 call vertical

How could you decide between each of these different bullish verticals,well, it really is a function of the risk vs. the reward. The 90/95 vertical will make you the least profits and carry the most risk, but statistically it is also the trade (out of all the verticals mentioned above) that has the highest probability. the 100/105 vertical will make you the most profit, has the least risk but has a low probability of making you this profit. This is what I meant when I was talking about the risk: reward profile of each trade (Q5). Risk is what your maximum loss is and the reward is what your maximum profit is.

Q4. If you want to dissect the risk futher you can see that each of these verticals may have different Greek risks as well and you will may want to know how these greek risks have changed over time.

I would strongly recommment that if you want to really learn about Greeks then you should re-read chapter 3 of CWS. Charles has done a very good discussion on this subject...I have read a few option books but, for me, the CWS book has the best discussion on the option greeks that I have seen.

If you want to really understand how the greeks could potentially change in the bullish vertical positions described above I would strongly recommend that you re-read Chapter 5 on verticals in the CWS book.

Personally, I needed to read the book 5 times before I felt confident that Iwas understanding the concepts Charles talks about.

Finally, please let me make this point. I am not giving you specific advice on what trades to do....I have not looked at the stock, I have not looked at the IV charts or the option data tables....rather I am just trying to show you how to structure your thinking in a systematised manner by using these 5 questions to help you to analyse which trades you may like so that you can learn to make your own independent decisions.

Each of us must always remeber that, at the end of the day we are the only one reponsible for our own trading!

Hope this helps. The reading I recommended is important because in options trading I believe one must always remain open to learning and it seems to me that you are open to doing this learning.

Good luck!

kind regards

Tharma

Bengt

Checklist
« **Reply #8 on:** September 07, 2005, 05:42:06 AM »

Thanks for your time Tharma.

I pleases me every day I find a new reply from you! :-)

>Q3. A simple structure that will reflect your bullish directional stance could be a bullish call vertical like a:

>1.90/95 call vertical
>2.95/100 call vertical
>3.100/105 call vertical

>How could you decide between each of these different bullish >verticals,well, it really is a function of the risk vs. the reward.

>The 90/95 vertical will make you the least profits and carry the >most risk, but statistically it is also the trade (out of all the >verticals mentioned above) that has the highest probability. the

>100/105 vertical will make you the most profit, has the least >risk but has a low probability of making you this profit. This is >what I meant when I was talking about the risk: reward profile >of each trade (Q5). Risk is what your maximum loss is and the >reward is what your maximum profit is.

Does this mean that I should look for something like 95/100
as the medium choise between high/low probability and still reasonably good profit?

>I would strongly recommend that if you want to really learn >about Greeks then you should re-read chapter 3 of CWS. >Charles has done a very good discussion on this subject...I >have read a few option books but, for me, the CWS book has >the best discussion on the option Greeks that I have seen.

>If you want to really understand how the Greeks could >potentially change in the bullish vertical positions described >above I would strongly recommend that you re-read Chapter 5 >on verticals in the CWS book.

I sure will read those 2 Tharma.
What I am really looking for from Charles is where he monitors a trading change, based on the changed values of Greeks.
So as to learn how to relate them to each other.
Which is more/less important depending on the changes in market direction?

>Personally, I needed to read the book 5 times before I felt >confident that I was understanding the concepts Charles talks >about.

I plan to read AT LEAST as many times.

>Finally, please let me make this point. I am not giving you >specific advice on what trades to do....I have not looked at the >stock, I have not looked at the IV charts or the option data >tables....rather I am just trying to show you how to structure >your thinking in a systematised manner by using these 5 >questions to help you to analyse which trades you may like so >that you can learn to make your own independent decisions.

Don't worry Tharma.
I am in full control and ALONE 100% responsible for any active trades on my behalf.

This was just a good example to start with.
I trade 90% with paper money, safest and still fun! :-)

Also as market changes it is extremely interesting to see how others (like you) more experienced are thinking.
Absolute the best way to learn.

I have allready asked Charles to consider RD2,3 sessions with us here over in the swedish market.
Hopefully we will be enough people to interest him. :-)

For the time being I am more then greatful for your time to answer ,Tharma.
Hopefully other readers benefit also.

>Hope this helps. The reading I recommended is important >because in options trading I believe one must always remain >open to learning and it seems to me that you are open to doing >this learning.

>Good luck!

Thanks Tharma

tharma raj

Checklist
« **Reply #9 on:** September 07, 2005, 08:36:58 AM »

Hi Bengt,

You are welcome.

In response to your last email and questions:

"Does this mean that I should look for something like 95/100
as the medium choise between high/low probability
and still reasonably good profit?"

If you are happy with this trade then yes it may be the right one for you. There is no right and wrong answer. Some people like trades with low probability but that win big whilst others like trades with high probability and don't mind winning a smaller amount. Ask yourself what do you like?

Good to hear you are going to re-read the CWS book, you will find it will make a lot of difference.

Glad to help.

kind regards

Tharma

Ri$k Doctor
Administrator
Hero Member

Checklist
« **Reply #10 on:** September 08, 2005, 09:05:26 AM »

Great quesions and great answers. I am responding to this by Blackberry so I am not going to say a lot but there is not much to add, lucky for me

The 3 above choices are also about time on your side or not for the moment. The ATM is niether when the underlying is between the strikes.

Another thing is that keep in mind that you may not wish to with the initial strategy for the whole ride or for the whole period because you may want to adjust.

Here is a dissection of the proposed position posted on September 2nd:

	C	D	E	F	G	H	I	J	K	L	M	P	R	T
11								Net Contracts						
12		PivotK	70									PivotK	110	
13	Month	OCT						Butterfly						
14	Raw Position							Dissector				WorkSheet		
15	nC	rC	K	rP	nP	K		CBf	PBf	IBf	K	C	K	P
32	40		75	40		75					75		75	40
33			80			80					80		80	
34			85			85					85		85	
35	(20)		90	(20)		90					90		90	(20)
36			95			95					95		95	
37		10	100	(10)		100					100		100	
38		10	105	(10)		105					105		105	
39	(20)	(20)	110			110					110		110	(20)
40			115			115					115		115	
58			Net			Net					Net		Net	
59														
60		PivotK										PivotK		
61	Month	NOV						Butterfly				NOV		
62	Raw Position							Dissector				WorkSheet		
63	nC	rC	K	rP	nP	K		CBf	PBf	IBf	K	C	K	P
86			105			105					105		105	
87	10	10	110			110					110	10	110	
88	10	10	115			115					115	10	115	
89	(20)	(20)	120			120					120	(20)	120	

You propose trading 120 contracts in OCT that can be achieved with 80.

You have chosen a complicated method to achieve a si,ple bull spread. You have only chosen the 75 puts because they were cheap but you realize the cheaper and lower you select a put is in effect buying a wider bull spread.

I think it is too convoluted to grap spreads on both months. Most people want more time but you can achieve a similar, equally desirable gamma and vega and theta with a vertical involving simply 2 strikes in a single month. If NOV is where you think the big move will take place then do it all in NOV.

Think about a 50 or 60 lot (or even less) vertical in NOV that matches the Greeks of your proposed trade. Perhaps we can save you a few commissions and a few negative "edges" (giving the market makers their fee in the way of bid/ask spreads).

Great discussion!

Bengt — **Options Literature**
« **on:** August 22, 2005, 06:48:51 AM »

Hello friends.

What would you recomend as a allcovering reference litterature in option trading. I allready have Risk$doctors excellent CWS.

Which of these would provide some or any more insights:

All taken from the ref.list in

The Four Biggest Mistakes IN OPTION TRADING by JAY KAEPPEL

Prices might be old, and I am sure there are newer books (maybe better) on the topic.

Please update us over here in Europe, who don't have access to (or time to read) all the american book reviews.

I have a guts feeling that those around or above 50$ are well worth the money! Right? But are they all covering each other?

Warm greetings from Finland

/Bengt de Paulis

SUGGESTED READING LIST

MCMILLAN ON OPTIONS, Lawrence G. McMillan, Almost 600 pages from the world's leading expert on options gives a complete game plan for trading options. Here are McMillan's greatest strategies complete with precise instructions on how and when to use them. It's the definitive source for profitable option players.
570 pp $69.95 Item #T155X-2678

OPTIONS AS A STRATEGIC INVESTMENT, 3RD EDITION Lawrence G. McMillan, It's the top selling options book of all time. Over 800 pages of exhaustive coverage on every aspect of trading options. Called the single most important options reference available, this mammoth work teaches you to: track volatility and the key role it plays for traders; learn rules for entering/exiting trades at optimal levels, build a successful trading plan. Plus, must-read sections on LEAPS, CAPS, PERCS and cutting edge risk abatement techniques.
884 pp $49.95 Item #T155X-2836

THE OPTION ADVISOR, Bernie Schaeffer, This renowned options expert reveals the proven wealth-building techniques for selecting the right stocks, assessing risk, managing your options portfolio and??most importantly??for reading market timing indicators. In terms everyone can understand he provides solid ideas on how to use options effectively for conservative and aggressive traders.
316 pp $59.95 Item #T155X-5390

NEW OPTION SECRET VOLATILITY, David Caplan, Uncovers practical strategies for using the most important variable in option pricing volatility to exploit and profit from the options market. Special section explains how gurus like Natenberg, Najarian, Trester and others use volatility to their benefit.

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GETTING STARTED IN OPTIONS, 3RD EDITION, Michael Thomsett, This newly updated primer demystifies options for the individual investor. Great reference source for pros, and a hands-on starting point for new traders.

Ri$k Doctor — **Litterature**
« **Reply #1 on:** August 30, 2005, 10:30:33 AM »
I like OPTION VOLATILITY AND PRICING STRATEGIES, Sheldon Natenberg

Bengt

NOKIA

« **on:** May 22, 2005, 07:41:54 PM »

Nokia has been going very well for the past half year, with only one major setback.
I was at the annual meeting here in Helsniki in April, and it was decided they will buy back a lot of their own shares. I don't know if that's part of the reason the stock is doing so fine. Any way... ma good target for plain calls, in my view.

Now to the question: How to optimize those calls:

Below is the call structure 20 May 2005.

I try to be very disciplined, only buying on the border between ITM and OTM, where the prices normally fluctuate between 10 ??re - 1 Krona about (1 cent - 10 cents)

I immediately sell as soon as I reach a 100% profit.
Simulating this trading has been very profitable. 400% total gain during the last couple of weeks.
Still I want to optimize the system even more, to use the utilize the very optimum momentum of the move.
Some of them have run up to +500% (lacked the time to close them at 100%). So, I have 2 concrete questions:

1. How to optimize the selling.
Do I get more by quickly taking the + 100% and rolling the money down the time-line in next similar position?

or

Should I wait for any sign that the top is crusting at +200-500%?
In that case what sign to look for?

Time is the crucial thing here (as I understand it). Where is the strongest momentum... if its in the 1-100% move, is it better to quickly move the profit into the next "100% rocket"?If not it's safer to stay with the winner as long as there is momentum, but not staying too long to take the nose dive 2. How to optimize the buying.

I am trying something like with a spread 1 - 9 cent (buyer- seller)
I put orders like
10 x 9 cent
50 x 5 cent
100 x 1 cent
How to optimize this... with your guts and feeling of this type of market Charles?

I think you can surely see I am not a beginner and not a novice (I hope), but still clearly in the learning curve, so your help in fine-tuning is really apprecited.

From your compendium:
Quote: "Verticals (Bulls/Bear Spreads) are the traders most versatile directional speculative tool."

From your experience, what is the optimum Vertical bull spread for Nokia.

Given the conditions presented?

Best regards

Bengt
Finland

	Strike	Symbol	%Chng	Bid	Ask	High	Low	Vol	Time
Noki calls 20 May 2005 Sthlm Xchange									
Lösen	Namn	Förändring	Köp	Sälj	Senast	Högst	Lägst	Volym	Tid
	80,00	NOKI5E80	-	-	-	-	-	-	17:19
	85,00	NOKI5E85	-	-	-	-	-	-	17:19
	90,00	NOKI5E90	-	-	-	-	-	-	17:19
	95,00	NOKI5E95	62,03 %	31,00	-	32,00	32,00	32,00	5 18:51
	100,00	NOKI5E100	-	-	27,50	27,00	27,00	27,00	15 18:51
	105,00	NOKI5E105	-2,25 %	-	-	21,75	21,75	21,75	10 18:51
	110,00	NOKI5E110	-	17,00	-	17,00	17,00	16,75	320 18:51
	115,00	NOKI5E115	4,17 %	-	-	12,50	13,00	11,00	420 18:51
	120,00	NOKI5E120	-3,33 %	6,50	7,50	7,25	7,50	6,75	395 18:51
	125,00	NOKI5E125	50,00 %	1,80	2,70	2,70	2,70	1,60	130 18:51
	130,00	NOKI5E130	-	-	-	-	-	-	17:19
	135,00	NOKI5E135	-	-	-	-	-	-	17:19
	140,00	NOKI5E140	-	-	-	-	-	-	17:19
	145,00	NOKI5E145	-	-	-	-	-	-	17:19
	150,00	NOKI5E150	-	-	-	-	-	-	17:19
juni 2005 (2005-06-17)									
Lösen	Namn	Förändring	Köp	Sälj	Senast	Högst	Lägst	Volym	Tid
	80,00	NOKI5F80	-	-	-	-	-	-	17:19
	85,00	NOKI5F85	-	-	-	-	-	-	17:19
	90,00	NOKI5F90	-	-	-	-	-	-	17:19
	95,00	NOKI5F95	-	-	-	-	-	-	17:19
	100,00	NOKI5F100	-	-	-	27,00	27,00	27,00	- 17:19
	105,00	NOKI5F105	-	-	-	-	-	-	17:19
	110,00	NOKI5F110	-	-	-	-	-	-	17:19
	115,00	NOKI5F115	6,52 %	-	14,75	12,25	12,50	12,25	230 18:51
	120,00	NOKI5F120	-	7,50	8,25	8,00	8,00	7,50	80 18:51
	125,00	NOKI5F125	-15,79 %	3,90	4,50	4,00	4,25	3,90	240 18:51
	130,00	NOKI5F130	-5,56 %	1,70	1,85	1,70	1,80	1,50	195 18:51
	135,00	NOKI5F135	-	0,50	0,75	-	-	-	17:18
	140,00	NOKI5F140	-	-	-	-	-	-	17:19
	145,00	NOKI5F145	-	-	-	-	-	-	17:19
	150,00	NOKI5F150	-	-	-	-	-	-	17:19
juli 2005 (2005-07-15)									
Lösen	Namn	Förändring	Köp	Sälj	Senast	Högst	Lägst	Volym	Tid
	80,00	NOKI5G80	-	-	-	-	-	-	17:19
	85,00	NOKI5G85	-	-	-	-	-	-	17:19
	90,00	NOKI5G90	-	-	-	-	-	-	17:19
	95,00	NOKI5G95	-	-	-	-	-	-	17:19
	100,00	NOKI5G100	-	-	-	-	-	-	17:19
	105,00	NOKI5G105	-	-	-	-	-	-	17:19
	110,00	NOKI5G110	94,29 %	-	-	17,00	17,00	17,00	100 18:51
	115,00	NOKI5G115	10,87 %	-	-	12,75	12,75	12,75	30 18:51
	120,00	NOKI5G120	-	8,50	10,00	-	-	-	- 17:19
	125,00	NOKI5G125	-4,55 %	5,25	6,50	5,25	5,25	5,25	10 18:51
	130,00	NOKI5G130	-8,33 %	2,80	3,00	2,75	3,25	2,75	340 18:51
	135,00	NOKI5G135	-	0,90	1,85	-	-	-	- 17:19
	140,00	NOKI5G140	-	0,10	1,10	-	-	-	- 17:19
	145,00	NOKI5G145	-	-	-	-	-	-	- 17:19
	150,00	NOKI5G150	-	-	-	-	-	-	- 17:19

augusti 2005 (2005-08-19)

Lösen	Namn	Förändring	Köp	Sälj	Senast	Högst	Lägst	Volym	Tid
	60,00	NOKI5H60	-	-	-	-	-	-	17:19
	70,00	NOKI5H70	-	-	-	-	-	-	17:19
	80,00	NOKI5H80	-	-	-	-	-	-	17:19
	90,00	NOKI5H90	-	-	-	-	-	-	17:19
	95,00	NOKI5H95	-	-	-	-	-	-	17:19
	100,00	NOKI5H100	-	-	-	-	-	-	17:19
	105,00	NOKI5H105	-	-	-	-	-	-	17:19
	110,00	NOKI5H110	-	-	-	-	-	-	17:19
	115,00	NOKI5H115	-	-	-	-	-	-	17:19
	120,00	NOKI5H120	-	10,00	11,50	10,25	10,25	10,00	70 18:51
	125,00	NOKI5H125	-	6,75	8,25	7,25	7,25	6,75	40 18:51
	130,00	NOKI5H130	5,88 %	4,00	5,50	4,50	4,50	4,50	30 18:51
	135,00	NOKI5H135	-	-	-	2,75	2,75	2,75	20 18:51
	140,00	NOKI5H140	-	-	-	-	-	-	17:19
	145,00	NOKI5H145	-	-	-	-	-	-	17:19
	150,00	NOKI5H150	-	-	-	-	-	-	17:19

november 2005 (2005-11-18)

Lösen	Namn	Förändring	Köp	Sälj	Senast	Högst	Lägst	Volym	Tid
	85,00	NOKI5K85	-	-	-	-	-	-	17:19
	95,00	NOKI5K95	-	-	-	-	-	-	17:19
	100,00	NOKI5K100	-	-	-	-	-	-	17:19
	105,00	NOKI5K105	70,14 %	-	-	24,50	24,50	24,50	60 18:51
	110,00	NOKI5K110	-	-	-	-	-	-	17:19
	115,00	NOKI5K115	1,47 %	-	-	17,25	17,25	17,25	1 18:51
	120,00	NOKI5K120	-	11,75	14,75	-	-	-	17:19
	125,00	NOKI5K125	11,11 %	9,50	11,00	10,00	10,00	10,00	10 18:51
	130,00	NOKI5K130	-	6,75	8,25	7,50	7,50	7,50	1 18:51
	135,00	NOKI5K135	-	4,75	6,25	-	-	-	17:19
	140,00	NOKI5K140	-	3,15	4,50	-	-	-	17:19
	145,00	NOKI5K145	-	-	-	-	-	-	17:19
	150,00	NOKI5K150	-	-	-	-	-	-	17:19

februari 2006 (2006-02-17)

Lösen	Namn	Förändring	Köp	Sälj	Senast	Högst	Lägst	Volym	Tid
	70,00	NOKI6B70	-	-	-	-	-	-	17:19
	80,00	NOKI6B80	-	-	-	-	-	-	17:19
	90,00	NOKI6B90	-	-	-	-	-	-	17:19
	100,00	NOKI6B100	-	-	-	-	-	-	17:19
	110,00	NOKI6B110	-	20,50	24,50	-	-	-	17:19
	120,00	NOKI6B120	-	14,00	17,00	-	-	-	17:19
	130,00	NOKI6B130	-	9,25	10,75	-	-	-	16:42
	140,00	NOKI6B140	-	5,25	6,75	-	-	-	17:19
	150,00	NOKI6B150	-	2,55	4,00	-	-	-	17:19
	170,00	NOKI6B170	-	-	-	-	-	-	17:19
	190,00	NOKI6B190	-	-	-	-	-	-	17:19
	210,00	NOKI6B210	-	-	-	-	-	-	17:19

maj 2006 (2006-05-19)

Lösen	Namn	Förändring	Köp	Sälj	Senast	Högst	Lägst	Volym	Tid
	105,00	NOKI6E105	-	-	-	-	-	-	17:19
	115,00	NOKI6E115	-	-	-	20,50	20,50	20,50	10 18:51
	125,00	NOKI6E125	-	-	-	-	-	-	17:19
	135,00	NOKI6E135	-	-	-	-	-	-	17:19
	145,00	NOKI6E145	-	-	-	-	-	-	17:19

februari 2007 (2007-02-16)

Lösen	Namn	Förändring	Köp	Sälj	Senast	Högst	Lägst	Volym	Tid
	90,00	NOKI7B90	-	-	-	-	-	-	17:19
	100,00	NOKI7B100	-	-	-	-	-	-	17:19
	110,00	NOKI7B110	-	-	-	-	-	-	17:19
	120,00	NOKI7B120	-	-	-	-	-	-	17:19
	130,00	NOKI7B130	-	-	-	-	-	-	17:19
	140,00	NOKI7B140	-	-	-	-	-	-	17:19

Ri$k Doctor

NOKIA

« **Reply #1 on:** May 23, 2005, 06:06:38 AM »

Hey Bengt,

You guessed it pretty good. Mostly OTM Vertical call spreads (maybe some diagonals occasionally) because because you can achieve your 100% target objective without suffering the severe time decay of a naked call. An ATM Vertical can double in value as well. However, you are, perhaps missing some opportunities to profit by ignoring ITM Verticals (think of it as an OTM put credit vertical spread) when time could be on your side. The only negative aspect of that is that you cannot make 100% or more because you would be risking "more" to make "less". It is just that the "less" is a higher probability less.

Naked calls don't make too much sense only because you, personally (and most investors), won't (can't) stay for the ride to unlimited gain potential. So it becomes a wasted luxury that few will use (they get out too soon). Perhaps you can learn to let 10% of your position ride, naked, and work your way up to a fuller size as profits dictate.

Charles

Bengt

NOKIA

« **Reply #2 on:** August 22, 2005, 07:09:51 AM »

Thank you for the nice responce.

When (or more to the point what signs to look for) would a diagonal be better then a vertical?

quote:

Using a diagonal spread, is simply another way to modify a bull vertical spread or bear vertical spread and for a trader to optimize his or her market objectives based on an analysis of implied volatility levels.

unquote

So what analysis of IV would suggest a diagonal in front of a "normal" bull vertical?

And how do you think when you are considering the vertical?
What strike prices for the short put and long call. I understand they should be different in a diagonal (otherwice it would be a normal time spread)

/Bengt

Ri$k Doctor

NOKIA

« **Reply #3 on:** August 30, 2005, 10:28:10 AM »

Since you are bullish, I would choose an OTM call debit spread when IV was near support or an OTM put credit spread if IV was near resistance.

The diagonal could be used when IV is particularly low (buy back month sell front month) and you could boost your upside for extra profits from vega.

Bengt

Volatility and Pricing

« **on:** August 19, 2005, 11:39:28 PM »

I have been studying volatility for the Swedish market for some time.

Now I would like to have feedback on how the relationship between these four volatilites should be evaluated:

A. The underlying stocks volatility
B. The underlying stocks historical volatility
C. The options implicit volatility
D. The options historical implicit volatility

E. Any other volatility that should be evaluated...(TIX)?

If you have these 4 values (or as charts)
how do you value their relationsship?

I.e. in what combinations of high and low values
would you take a position, and when would you stay out?

Regards

/Bengt

Finland

Ri$k Doctor

Volatility and Pricing

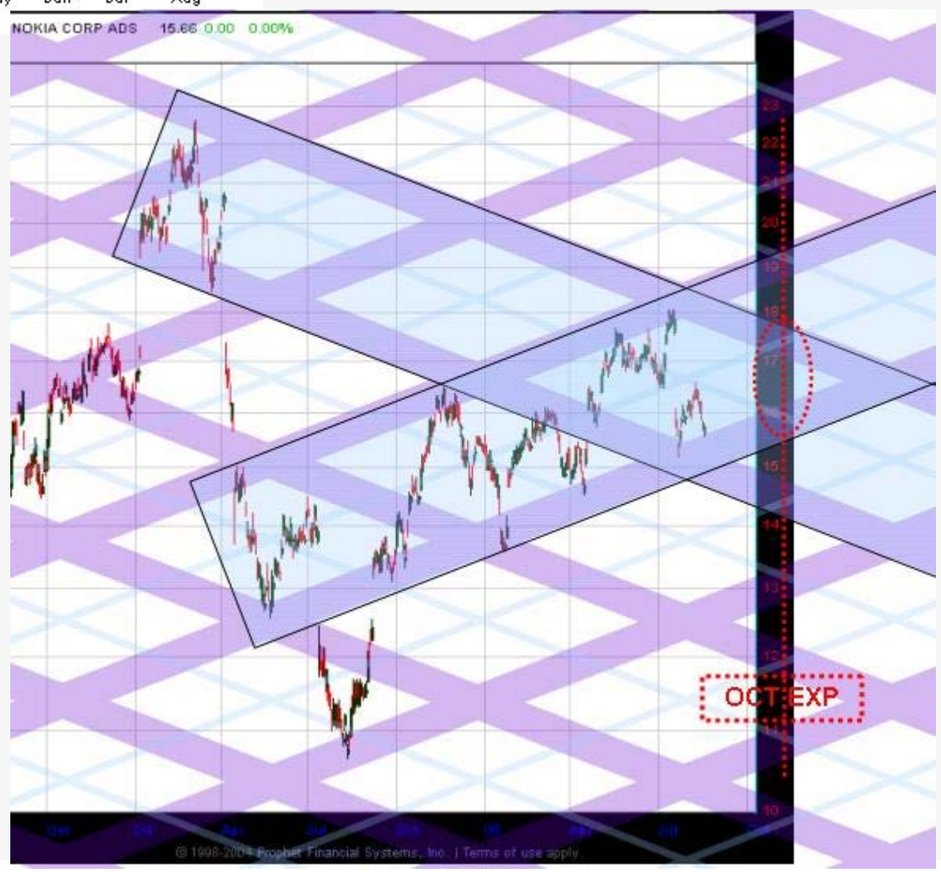
« **Reply #1 on:** August 21, 2005, 08:12:08 PM »

Volatilities often have nothing to do with the predictability of the markets behavior. It is a force of supply and demand for options premium. The word imply is an "implication"...a collective guess by the market and an accommodation by the market makers in letting the order flow of the options move to where it hurts them the least in accumulating inventory.

Notice the Chart below from ivolatility.com showing the gold line of IV for Nokia (NOK). The blue line was the actual volatility of the stock movement. Every quarter, regardless of how the stock is behaving, it seems as though the market makers let the buying pressure pump its way up for NOK's earnings announcements (they offer a thin amount of premium all the way up and increase their short accumulation at resistance levels. They average in at higher vols (ostensibly losers but getting the positive theta). After the news comes out, they crush the Implied Volatility. Last month GOOG was down $17 on earnings and all the out of the money puts were down on the day.

NOK's IV is rather low right now but look at its chart pattern using a Diamonetric Grid to show you the likely expiration level.

That is why the OCT 15.00/17.50 strangle is only .60.



It seems pretty cheap but it is probably going out worthless.

I had another set of questions relating to implied volatility and they are pasted below.

A calendar question: I have begun trading >100% reward/risk?

RD: Looking to more than double your money, I assume.

??Calendars with 15 -30 days to expiration on the short option and the long option being the next month (Ex. June/July) with a low IV differential, less than 15%...

RD: It is more beneficial to look for IV differences that are favorable (meaning the vol being purchased is less than the Vol being sold but not always because as you said, over all IV has to be near its all time lows to be attractive. The "less than 15%" you are looking for, I would assume you mean to say that the month you are buying should be no more than 15%higher than the one you are selling. That seems pretty high but if overall IV increases (equally between the two months) the further dated options will perform better than the front month because the vega (sensitivity to implied volatility changes) is greater. And this vega difference becomes greater the more time between expirations. It can also be said of a wide calendar that even if the Vol in the short dated month increases more than the further dated month that the spread can still be profitable only because the vega may have 3 or 4 or 5 times the sensitivity of an expiring option.

??The trades are closed on the expiration of the short option or where the price wanders out of the break-evens prior to expiration??

RD: Theoretically, the calendar's break-even point is the cost of the spread plus the strike, in the case of a call, and subtracted from the strike, in the case of a put, but realistically most roll it before expiration or get out. So the points you speak of are arbitrary as far as the decision point of when to exit.

??(There is usually another calendar on track to replace it.) The idea is to capture the highest monthly return with >100% possibility on each calendar trade at the lowest risk.

RD: I think you mean >100% profit because possibility, rather, probability is a totally different subject and is quite a subjective conversation that can fill a chapter in a book. Read Natenburg and McMillan.

RD: What I think you are asking is in reference to rolling and if you have a calendar with one or more expirations between the two initiated months then you have the opportunity if prices are right (in your case you are looking to double your money by the time of the first roll and have on the remaining configuration on for free for opportunity at the next roll to profit and allowing for perhaps another roll to take event more out of the trade. Hey, if the stock stays in the right range you should have no problem but the risk is the stock goes to visit a completely different trading range leaving your spread in the dust and no rolling opportunities.

??I open new 100% R/R calendars on or about expiration date each month. My objective is a 20%+ account return monthly. That is 743% for the year:

RD: That is a very ambitious return and I think that kind of a performance would put you on the cover of every magazine (even cooking magazines) in the world.

Most hedge fund managers look to earn 2% to 3% per month and occasionally score 8% to 10% on occasion but you have to remember that there will be down months to average out the annual return. I think you have to reassess what you think you??re getting into because you have to be able to forecast the market accurately a lot and then put on the strategy the milks the profits efficiently to make that kind of money.

??My question is: do you perceive this as a viable strategy and what is the downside, or, can you recommend some other high return, low risk calendar strategy to achieve like objectives?

RD: The calendar is a good, safe solid, money producer when managed effectively. Other range trades include diagonals which add a directional (bull or bear spread) component to the picture (risk profile). Bull and bear spreads (verticals) are also good for consistent profits and when combined create wing spreads (butterflies and condors) which also capture time premium (also ratioing verticals). Calendarizing wing spreads goes for similar profits that calendars try to achieve with spreads like straddle/strangle swaps and double diagonals. Bigger profits can be made by having extra wings (costs more so risks more) in certain scenarios for the big moves.

* I have been in a Put Calendar where I over adjusted my position, the lesson for me was I should have waited. Are there any rules or conditions you have learned over the years for adjusting trades?

RD: I don't exactly understand what you mean by 'over adjusted' but you cannot have an automatic pilot approach. You will develop your own automatic dos and don'ts? but that comes out of your experiences and your learning to ask yourself an extremely important question when in a position. The question comes up at every moment you are in a position and especially when you are thinking of exiting or adjusting. The question you must ask yourself is, If I had no position, would I get into the trade that I have on at the current prices (ignore where you got in, your cost, your profit or loss)? If the answer is that you would get in now, then stay in the position. If no then you need to get out or adjust. But when you adjust you have to look at the resulting position freshly and objectively at the going value (again ignoring where you got in, your cost, your profit or loss). Is that value attractive? If not, don't adjust that way. Look for a different adjustment. Try to clear the slate and determine that if you had nothing on, what would you put on? If there is nothing you would put on it is time to exit whether it is a profit or a loss or a break even. Don??t try to be cute and cover your commissions or anything because you will be becoming penny wise and pound foolish.

* Can you provide 3 key things to look for in terms of considering Volatility (Imp and Historic) before putting on a trade?

RD: When looking to buy calendars, whether it is part of a diagonal or a calendarized wing spread:

1. Make sure the IV is near historic lows or has trending support because the vega in the deferred month can hurt you if IV drops significantly (even if your short closer dated month drops more).
2. Check to see what pending events the company, sector or the economy has to announce that may be attracting you to the trade because the differences between expirations can be a situation of spreading apples to cows when you want apples to apples.
3. Pick an amount you can totally lose like 3% to 7% of your portfolio on anyone trade, and be willing and comfortable to lose it so that the market cannot scare you out of the trade. And do what the trade was intended to do: let time be on your side.

Bengt — **Volatility and Pricing**

« **Reply #2 on:** August 21, 2005, 10:46:59 PM »

It sounds to me there is a possible sure win (?) in the Nokia volatility graph.

If I assume the price of underlying Nokia stock is going up (2005), the weeks before quarterly report, I could:

1. Use bull spread to ride the up-wave before Q report, sell all the day (days) before the report.

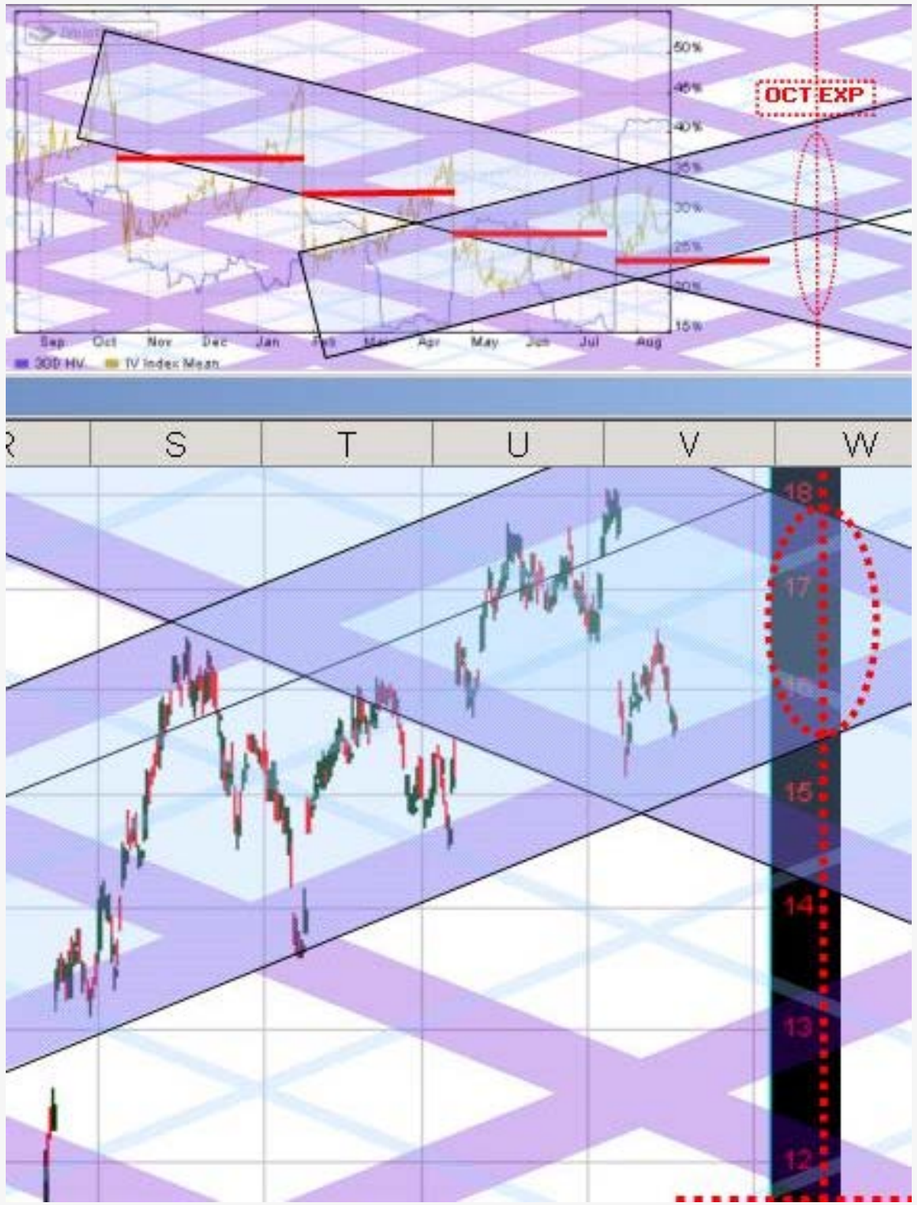
2. Switch that money into a volatility spread, straddle or strangle with each leg at the strike. And profit from the 100% sure coming up or down-move of price as volatility is crushed.

3. What do you suggest as the most profitable position, if you know for sure this IV will be crushed?

Right thinking? or anything I have missed/misunderstood?

Warm greeting from a Finland in beautiful autumn colors!

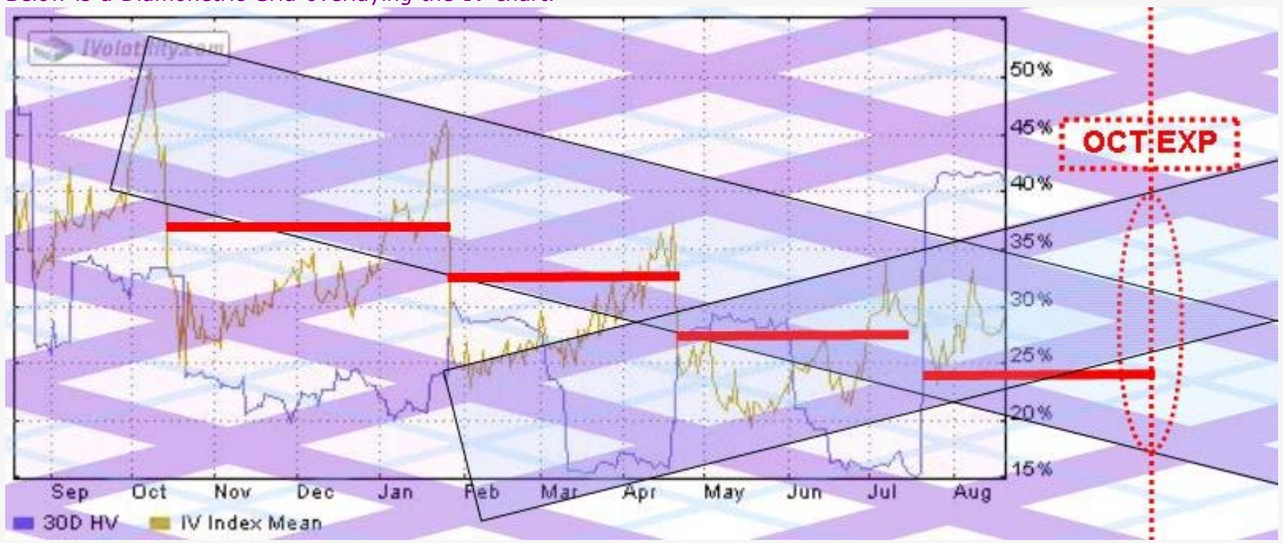
/Bengt



Ri$k Doctor — **Volatility and Pricing**

« **Reply #3 on:** August 30, 2005, 10:14:07 AM »

Never say, "Sure thing".
Below is a Diamonetric Grid overlaying the IV chart.



I don't see the correlation, you speak of, between NOK rallying into quarterly earnings reports. I see IV rallying into the report and then getting crushed. The stock has done ups and downs leading to reports.

You have a lot of time until the earnings report so in the meantime:

I would anticipate the expiration range and only play it bullish near support or bearish near resistance, based upon the D-Grids, in anticipation of NOK heading for that forecasted range. Basically bullish or bearish means verticals.

Then I would choose an OTM debit spread if IV was near support or an OTM credit spread if IV was near resistance to manifest my bullishness or bearishness.