Ri$k Doctor Forums Open Financial Forum Index Page 11 of 11

		Selling Straddles	Ri$k Doctor			July 28, 2005, 06:49:45 AM by Ri$k Doctor
		Proposed Long gamma strategy	Hamlet			July 27, 2005, 04:49:43 PM by Belinea03
		RIMM	Tharma			July 20, 2005, 06:20:45 PM by Ri$k Doctor
		Bullish on SMH	trader5			July 20, 2005, 08:55:25 AM by Ri$k Doctor
		KLAC	Ri$k Doctor			July 06, 2005, 08:56:38 AM by Ri$k Doctor
		If not naked then what?	bajaman			June 23, 2005, 01:46:41 PM by Ri$k Doctor
		Mergers & Options	rlaethem			June 09, 2005, 07:59:26 AM by Ri$k Doctor
		New to Options: Considering this trade	chibondking			May 11, 2005, 08:45:33 AM by Ri$k Doctor
		Adjusting DIA call bear spread	trader5			May 09, 2005, 12:20:52 PM by Ri$k Doctor
		A New Paradigm	Guest			May 03, 2005, 09:52:25 AM by Ri$k Doctor
		adjust 30/37.5 DHI put bull vertical	trader5			April 27, 2005, 12:42:22 PM by Ri$k Doctor
		Sweet Spot	Guest			March 18, 2005, 01:43:01 PM by Ri$k Doctor
		EBAY Diagonals	Ri$k Doctor			March 15, 2005, 12:38:57 PM by Ri$k Doctor
		Options: Perception and Deception Review	Admin			March 02, 2005, 03:04:30 PM by Admin

Ri$k Doctor
Administrator
Hero Member

Selling Straddles
« **on:** July 28, 2005, 06:49:45 AM »

Hi Doc

1. Everyone says we should be selling options rather than buying. OK...
Then why not do a quasi reverse gamma scalping. So we would then...
Sell the Straddle for income & then buy or sell the underlying to hedge the exposed position while the Straddle devalues to zero. If we sell a 50 Straddle we would then Buy or Sell the underlying as it crosses the 50 price to always be covered.

2. Is there a way to back test various option strategies? Option data is so difficult to compile that makes back testing almost impossible. I have been asking to see some kind historical results on any option strategies & yet no one can show me any?

3. For example, How could I test to see the actual results of selling Iron Condors at 1 standard deviation & if could get even money on the risk reward (1.25 income for a 2.50 spread). Also this scenario seems to have all but disappeared in recent times since the volatility dropped. Do you agree or am I missing something?

4. I have played with synthetic positions. Why would you ever buy or sell actual stock that requires many times the margin & risk exposure rather than a locked in synthetic position.

5. Can we prove that 1 standard deviation formula really works. I know that it??s the price * Historical Vol * square root of Days to exp / square root Trading Days... But can we prove that this will really give us an end price within that range 68% of the time. I can give a reason to question it, if we only look at Long Term Capital & the mess that it became by the prize winners that created this formula.

Thanks
Mplay

Ri$k Doctor: MPlay:

1. Selling Options naked is a pretty dangerous habit to get into because as you become successful your size increases and it becomes only a matter of time until POOF! -- You disappear.
Another interpretation of what you have heard is it is better to sell premium but in a limited risk fashion such as you suggest in item number 2.

Regarding the buying and selling of underlying as it crosses the strike is not what is done but more as the underlying gets fare enough away from the strike that a delta hedge is warranted.

The gamma scalping story in Chapter 4 should help you with this concept even though it is done with a long straddle. Just the opposite trade is made.

The object of profitability on a short straddle is for the underlying generating your negative (losing) scalps become less than the premium collected. In scientific terms, the object is for the IVol (implied by the proceeds from shorting the straddle) to be greater than the actual volatility or better yet the volatility generated your actual trades) not everyone scalps the same relative size or at the same points).

2. Companies like IVolatility.com and ORATS.com will do custom back-testing but you have to give them a lot of complicated parameters.

3. This is a favorite play of RedOptions.com and they publish a lot of their results. The fact that Short Irons***** have to be done for less of a credit does not mean that they are not a good trade although the risk is a bit greater. IV is currently in a downtrend. What happens in down trending markets? Prices go down. And in this market, prices are implying that prices won't move much. This implication is just a collective guess that may or may not be right. But the trend has been the friend to those that are willing to receive a little less of a credit
(more risk).

Question: If you find a more volatile issue that gives you a greater credit does that make it a better trade?

Answer: Not if it moves too big.

What should you do? Call 1800-ALL-MIGHTY

4. When you say lock in you say it differently than the term "Lock" in Chapter 1 which is a flat position like real stock versus synthetic stock. Why the real stock versus the synthetic?
Answer: Edge. The stock is .01 to .2 wide for most liquid issues. Even the most liquid (QQQQ) options' combos (call/put combination) are .05 wide and most others are .10 to .20 to .50 wide.

5. I cannot prove any of those formulas but the remaining 32% chance allows for all sorts of chaos.

***They are commonly referred to as "short" because of the credit received but I like to refer to these as "long" because an iron condor that has long wings is consistent with its synthetic equivalents: call condor and put condor done for the synthetically equivalent debit (the credit come from an imbedded short Box -- Read Chapter 6 of CWS pp 125-135).**

Hamlet
Newbie

Proposed Long gamma strategy
« **on:** April 08, 2005, 10:44:23 AM »

Long gamma strategy

One problem with long gamma strategies is that the break even points can be very far away as you go out to three months or six months. For example for a six month straddle on a stock at 60, IV 35%, interest 5%, fair value of the six month straddle is about 13, meaning the stock has to move below 47 or above 73, before expiration. That is a pretty high hurdle. Of course the time decay is such that it can move less in the early months and still be profitable; it only requires 13 points as we get closer to expiration. However here is one way to put on long gamma position with an edge.

(Note: the traditional long gamma strategies are straddle, strangle, ratio back spread, reverse calendar spread, and short butterfly. The last two have several defects which makes them unpopular. The first two, straddle and strangle suffer from changes to IV which can greatly negatively impact the position. My comments apply only to the first three strategies.)

Let??s say stock is 60. Buy the 55 / 65 gut strangle say ten times. (Long ten 55 calls, ten 65 puts). If stock moves big, great, you??re done!

However consider the more likely case where the stock moves less than enough to be profitable but a fair amount. If stock goes up more modestly, say five points to ten points, which may not be enough to be profitable, sell the ten 65 puts and sell five 50 calls. You then own the 50 / 55 ratio back spread at a price better than originally possible. New position is short five 50 calls, long ten 55 calls. (What you lose on the 65 puts is gained on the 55 calls). Therefore it would seem you now own a long gamma position at good prices, and therefore with break even points closer together, than could have been achieved by selling five 50 calls against ten 55 calls originally. You would have created ??an edge?.

Conversely, if the stock went down, you would sell your 55 calls and sell five 70 puts against your ten long 65 puts and what is lost on the 55 calls is gained on the 65 puts.

Comments? Can this give you an edge? Does this make sense? Thank you in advance for your comments. Arthur

Ri$k Doctor
Administrator
Hero Member

Proposed Long gamma strategy
« **Reply #1 on:** April 10, 2005, 07:12:50 PM »

I am not wild about speculating in a big move in either direction as they are low probability trades but If I were to buy a strangle I would definitely avoid the ITM $13 Gut Strangle in favor of the synthetically equivalent OTM $3 Strangle with the same strikes. The legs will trade with tighter markets because they are cheaper with smaller deltas. Therefore the OTMs are safer to leg in and out of.

There will be more times that the prices are worse when converting to the back spreads especailly if time went by faster than the move happened.

Another concern has to do with timing. Gamma is pretty small for the further term options and if enough time goes by it may be a bad idea to turn it all into a back spread. Each scenario will be different and I would not create a rule like this to follow everytime.

Just my opinion, but the series of trades that you propose can profit if conditions are just right. I think it is tough to consistantly make money this way.

Hamlet
Newbie

Proposed Long gamma strategy
« **Reply #2 on:** April 11, 2005, 05:57:37 PM »

Thank you very much for your response, which is quite interesting. Perhaps I should clarify my goals. Since September I have been paper trading a method of determining when a stock is likely to make a large move. In a (relatively) flat market, the returns have been impressive from 15% to 55%, on the vast majority of stocks picked, though the method can not predict which way the move will be. These moves commonly occur within three months of a signal (and often sooner especially on the down moves. Up moves seem to take more time to develop.) I'd like to craft an options strategy that would be non-directional for a 15% or larger move, and that would have a statistical edge. I thought the ratio back spread would be desirable as its unaffected by changes in volatility. However from your post, it seems as if you prefer a simple OTM strangle. (Please correct me if wrong. Perhaps you simply prefer the OTM strangle to a more complicated "start with position A, then adjust it into position B" approach. Or perhaps you have a better non-directional long gamma strategy than the ratio back spread). For example, I understand that long several far month strangles, short half as many current month strangles has interesting possibilities, though I wouldnt be an expert on how to adjust this complex position wisely. If you have more insights, I sincerely appreciate them. (Also would you use a three month strangle if your expected move was in three months from a signal? Or would you a) choose a three month but if no movement in thirty days, take it off and move it one month farther out or b) would you choose something longer like a six month strangle and let it run the full three months?) I apologize for the length of this post, however writing can sometimes be longer than talking. Thank you, Arthur

Belinea03
Newbie

Proposed Long gamma strategy
« **Reply #3 on:** April 12, 2005, 04:19:31 PM »

Hi Arthur,

If I can add my 2 cents to this discussion. I'm sure Charles will correct us both where we get it wrong.

Ratio Back Sprds

You said:

> **Quote**
> I thought the ratio back spread would be desirable as its unaffected by changes in volatility

This is not entirely correct as far dated ratio back spreads are sensitive to falls in IV which will hurt the position as the stock price increases.

> **Quote**
> However from your post, it seems as if you prefer a simple OTM strangle. (Please correct me if wrong. Perhaps you simply prefer the OTM strangle to a more complicated "start with position A, then adjust it into position B" approach. Or perhaps you have a better non-directional long gamma strategy than the ratio back spread).

I think what Charles was saying is that the guts are usually illiquid with wide bid/ask spreads. Therefore, you're likely to get terrible fills and can't get in or out as readily as you'd like. From Chapter 2 of CWS - Options Metamorphosis, I don't think Charles has any hang ups about adjusting positions to make profit (I'm sure he wished he had adjusted his fly to make $2m instead of leaving the position as is and losing $325K - see Ch 6).

Just my thoughts.

Ri$k Doctor
Administrator
Hero Member
★★★★★

Proposed Long gamma strategy
« **Reply #4 on:** April 13, 2005, 07:18:55 AM »

This is brewing into an interesting discussion. Let's take it to the next level, by all getting on the same page and eliminating any ambiguity, shall we? Pasted below is a bunch of data that may or may not meet with your sense of "statistical edge". I don't know but not to worry because if it is not, then I will delete them and post another set that meets with your criteria. Costco (COST) has and can move again 15% (close to $7 based on the current value of almost $46) withing a month.

IV is currently lower than historical volatility. Rather than me go off making any recommendations, because I won't and in the interest of education, please have a go and propose a trade for us to get the ball rolling.

	Current	1 WK AGO	1 MO AGO	52 wk Hi/Date	52 wk Low/Date
HISTORICAL VOLATILITY					
10 days	26.15%	24.56%	28.45%	30.07% - 14-Mar	6.13% - 21-Oct
20 days	22.11%	25.87%	23.37%	25.87% - 05-Apr	12.96% - 23-Feb
30 days	24.61%	24.69%	19.95%	24.78% - 07-Apr	13.98% - 05-May
IMPLIED VOLATILITY					
IV Index call	19.59%	21.73%	19.15%	28.84% - 17-May	15.51% - 25-Jun
IV Index put	20.86%	22.26%	17.53%	29.48% - 17-May	16.26% - 25-Jun

COST: DAILY 1 YEAR VOLATILITY CHART (3 months 6 months 1 year)

IV Index Call IV Index Put IV Index Call & Put IV Index Mean

COST | COSTCO WHSL CORP NEW | NASDAQ | Gamma | Impl Vol | 7

STOCK

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
45.90 Q	-.49	45.88 C	45.90 C	2 x 4	355,651	46.40	46.42	45.87

YIELD	PE	EPS	DIV	DIV.FREQ	DIV.DATE	52HIGH	52LOW	BETA	SHARES
0.87%	22.39	2.05	.1	Q	2/3/05	50.46	35.05	.818	477,662,000

OPTIONS | Single | Exchange Composite

CALLS						PUTS			
GAMMA	IMPL VOL	BID X	ASK X	EXP	STRIKE	BID X	ASK X	GAMMA	IMPL VOL
APR 05 (2) 100									20.29%
MAY 05 (37) 100									20.45%
.01	31.43%	8.40 B	8.60 I	MAY 05	37.5	0 C	.05 I	.01	30.39%
.02	22.38%	5.90 I	6.10 C	MAY 05	40	0 C	.10 I	.02	24.40%
.06	22.35%	3.60 I	3.80 I	MAY 05	42.5	.20 I	.30 I	.06	23.17%
.13	19.99%	1.65 I	1.80 I	MAY 05	45	.75 I	.85 I	.12	20.91%
.13	19.20%	.50 I	.60 I	MAY 05	47.5	2.10 I	2.20 I	.12	20.56%
.06	19.41%	.10 I	.15 I	MAY 05	50	4.20 I	4.30 I	.07	22.48%
.01	26.35%	0 I	.05 I	MAY 05	55	9.00 I	9.20 I	.00	0.00%
JUL 05 (93) 100									21.69%
.02	27.67%	8.70 P	8.80 I	JUL 05	37.5	.10 I	.20 I	.02	26.57%
.03	25.34%	6.40 I	6.50 B	JUL 05	40	.30 I	.40 I	.03	24.88%
.06	23.23%	4.30 I	4.40 C	JUL 05	42.5	.70 I	.80 I	.06	23.04%
.08	21.75%	2.55 I	2.65 B	JUL 05	45	1.45 I	1.55 I	.08	21.64%
.08	20.55%	1.30 C	1.35 B	JUL 05	47.5	2.70 B	2.75 B	.08	20.40%
.07	19.52%	.50 I	.60 B	JUL 05	50	4.40 I	4.60 I	.07	19.82%
.02	18.38%	0 X	.10 I	JUL 05	55	9.10 I	9.20 B	.03	23.31%

Belinea03
Newbie

Proposed Long gamma strategy
« **Reply #5 on:** April 14, 2005, 03:28:46 AM »

My initial thoughts:

+2* Jul05 50/40 Strangle
-1* May05 45 Straddle
Credit = $55

Performance best up to 30 days.

Having thought about it more, I would rather not have the extra Put in the Jul05 Strangle as it causes breakeven to narrow above estimated lower. Would consider

Jul05: +2*50C/+1*40P @ 1.60
May05: -1*47.5C/-1*45P @ 1.25

or

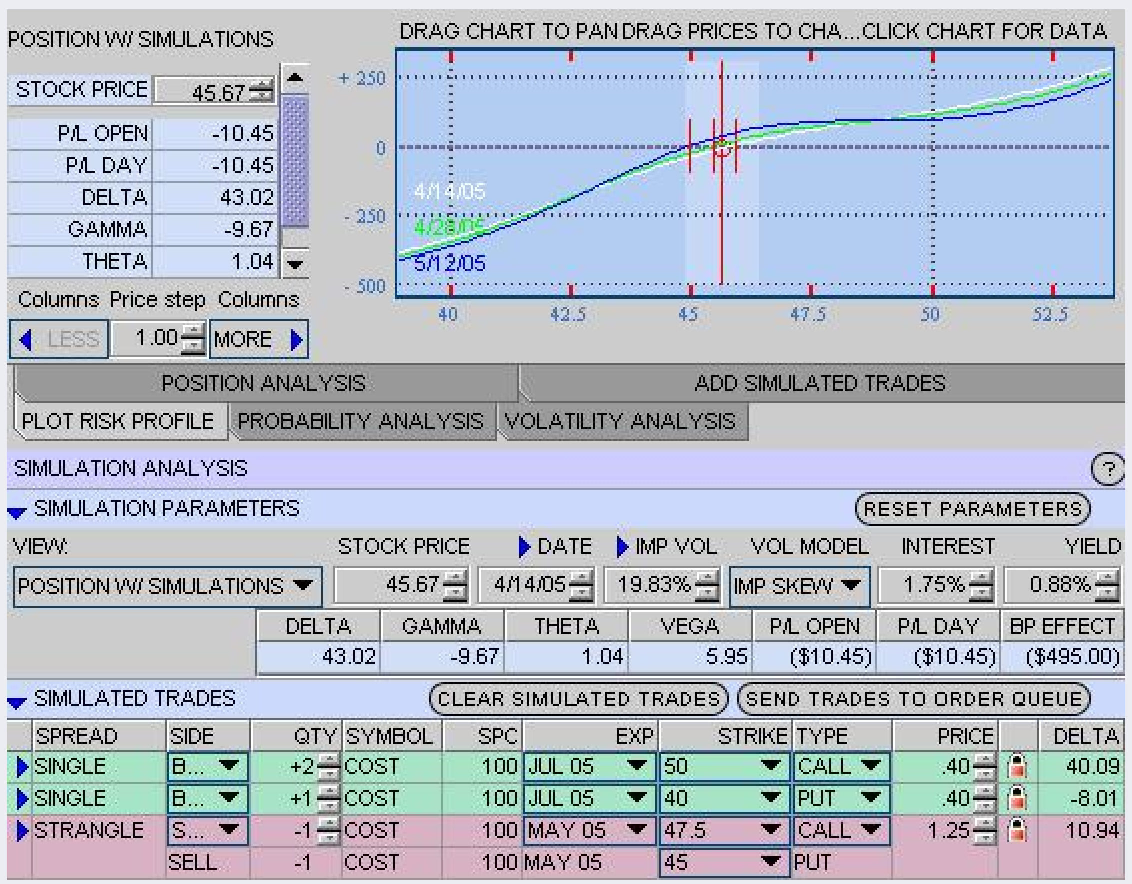
Jul05: +2*50C/+1*40P @ 1.60
May05: -1*45 Straddle @ 2.40

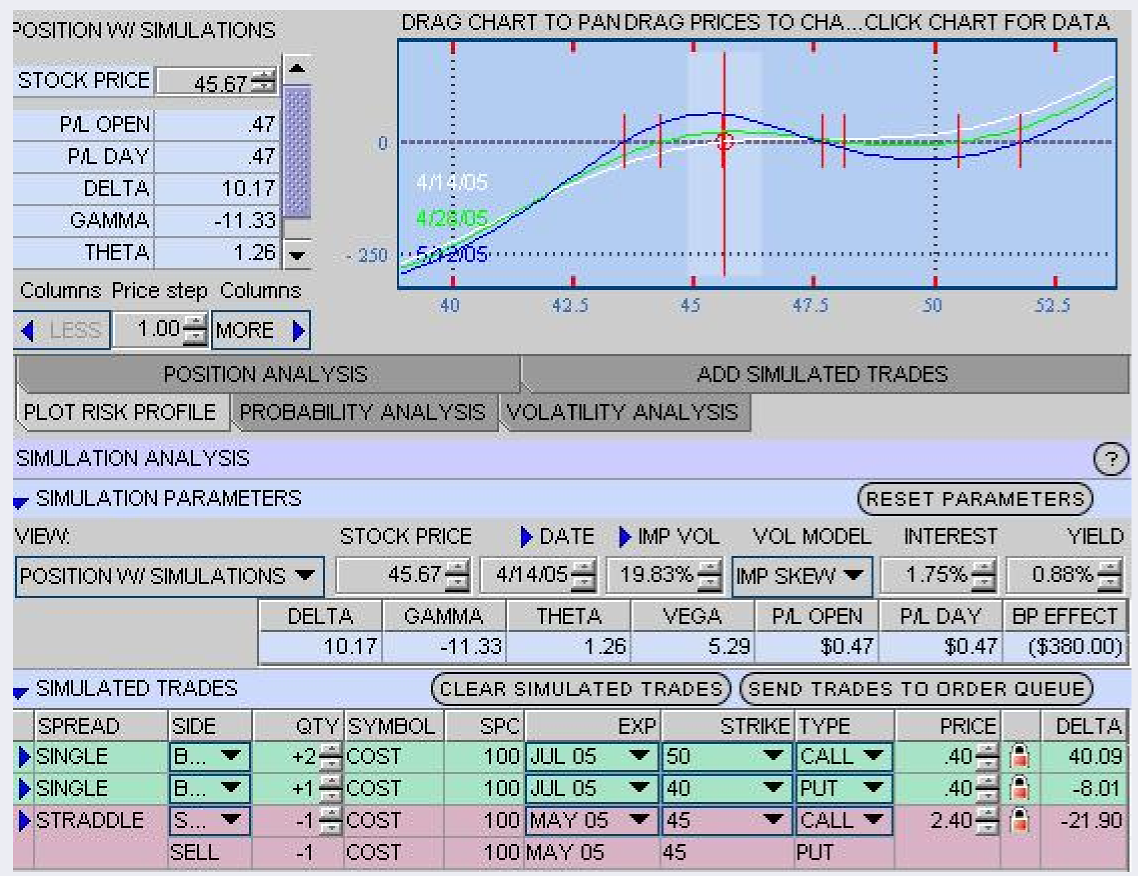
Decision would be made on profile of P & L graphs which I'm unable to access at this time.

Ri$k Doctor
Administrator
Hero Member

Proposed Long gamma strategy
« **Reply #6 on:** April 14, 2005, 11:40:13 AM »

Here are some analytics if it helps you make a decision:





Belinea03
Newbie

Proposed Long gamma strategy
« **Reply #7 on:** April 15, 2005, 01:24:29 PM »

After reviewing both P & L graphs I find that I'm not satisfied with either positions. The first underperforms a the Jul05 45C @ 2.65; the second produces valleys to the upside where we should be making profit. I therefore went back to the drawing board.

COST has been on the uptrend since Dec02 with a few pull back along the way. My forecast is that it will continue in the same vein: uptrend with pullbacks. Resistance is at 50, at least for the the next few months (though I could be wrong). The stock usually trends for $2 within the month or experience a $6 run to the upside within the same period. IV is low hence debit sprd are not ruled out. My plan is thus:

Jul05 BuCS
- Jul05 50C @ 0.50
+ Jul05 45C @ 2.65
Debit = 2.15; MaxProfit = 2.85

To capture pullbacks add the following position:

+Jul05 50P to convert position to a synthetic 45 PUT

Buy back 50P when uptrend resumes.

If COST shoots through 50 and I'm still bullish:

Short the 45/50/55 (Call/Put/Iron*) Butterfly to roll into the 50/55 Bull vertical.

*I'd literally short the Iron sprd if it provided a better exit and entry than the Call or Put flies.

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janus
Newbie

Proposed Long gamma strategy
« **Reply #8 on:** April 15, 2005, 03:51:34 PM »

Interesting thread. First question I'd have for Arthur. Your method of identifying stocks set to move. Is there a means of confirming when move has started? If so just wait until direction is confirmed and go with it.

Belinea03 your second trade comments are now based on your view of stock direction from your analysis. This is departing from the orginal concept of a large move in either direction. Unless you plan to adjust your position.

Using COST prices from Charles post. Stock@45.90
Expected move 15-55% in 3 months time frame.
Take 15% as minimum 'success' = stock at <= 39 or >= 52.79.

The 42.5P-47.5C Jul Strangle (2-2.15 assume fill at 2.1) gives BE of 40.4 & 49.6 at expiry. The 3 month time horizon takes us about 30 days from Jul. If there is no movement the strangle will probably lose about 70% of its value. IV is low end of range so I'm assuming no IV drop.

Alternate would be 42.5-47.5 call ratio backspread for credit of 1.65. This means downside returns are limited. But BE of 44.15 and 49.18 are tighter. Max risk 3.35. 30 days to expiry and likely loss on no move is about 35%. More expensive than strangle (remember margin req. means equiv of debit of 3.35) but lower loss if wrong.

From these two as a starting point (of course there are plenty of others) the next question would be what adjustments are possible if stock starts to make a move.

There is a strategic question here about just how much one can hedge a position. ie if our view is a sizeable move is likley in 3 months then is it worth trying to hedge the theta/vega risk if we're wrong, if this comes at the expense of wider breakevens and lower gains if the stock does what we expect.......

Hamlet
Newbie

Proposed Long gamma strategy
« **Reply #9 on:** April 18, 2005, 12:05:51 AM »

Greetings! My goal is to find a long gamma position that meets three criteria: A) in the short term as well as the long term, it must be non-directional and long gamma. That is a large movement in either direction (large equal to greater than 15%) should lead to a profit. A smaller move would be a loss. B) it must have a ??statistical edge? over a position that can simply be put on ??at the market? and C) it must not involve so many commissions that it is impractical for an off the floor trader. What is a statistical edge? The position must either have break even points that are closer together than the ??at the market? position or the average loss must be smaller (the graph shifted vertically higher) than the ??at the market? position. For example, one can buy a straddle. However such a position contains no statistical edge. After much philosophizing about option theory, I have concluded that a statistical edge must be gained by either selling a shorter term option or option spread, against a longer term position. If the spot does not move much, we collect time decay and have moved the breakeven points of the long term position closer together or moved it vertically upwards. The selling of the short term option or spread must not reduce the long gamma characteristics of the overall position. An example of a long gamma position that satisfies my criteria is the position in Allen Jan Baird??s ??Option Market Making?, on pages 128-130. Short term, he is long an ATM butterfly, longer term, he owns a wrangle (a call and a put ratio back spread; short ATM calls and puts and long twice as many farther out calls and puts.) If the spot does not move much, he collects time decay; adjusts the wrangle into a new butterfly by selling more of the center options, and opening a new wrangle in the next month. Over time he can own a wrangle for free even if the spot does nothing which is a great statistical edge. His position is long gamma at all times. If the spot moves big, he loses a pre-determined, finite amount on the fly and gains an enormous amount from the wrangle because he owns what is in effect a longer-term strangle for next to nothing. As my grandmother might have said ??what??s not to like?? Well; such a complex position is fine for a market maker paying no commissions, for an off the floor trader, such a position, especially if the spot does not move, will eat you alive with commissions. I have thought of three possible solutions: A) start with the gut strangle, and adjust it into a ratio back spread (which was how I started this discussion). What??s gained on one option is lost on the other but one can roll the entire position into a ratio back spread at prices better than the market allows. B) start with a farther month straddle or strangle and short half as many current month straddles or strangles against it C) start with a far month ratio back spread. Sell half as many current month vertical spreads in the ??unlimited profit? area, in such as a way that one collects time decay if there??s no movement but continues to be long gamma if there??s large movement including to and through the short option in the vertical spread. The Costco example is a good choice. Lets see if we can try these three with currently priced options on paper. One comment had to do with the algorithm used to find these stocks. The problem is that when the algorithm identifies a stock ready to move the down moves come so fast you can not adjust a position. Specifically, the algorithm identified ASKJ Ask Jeeves on 10/4 at 35; on 10/22 ASKJ was 25.8, a drop of -26.3%; and SYNA Synaptics on 1/31 at 36.3, on 2/11 this was 22.5 or ?? 38.0%. OSIP OSI Pharmaceuticals on 12/6 at 69, exit 2/26 at 56.5, -18.1% (stock has been MUCH lower since). On the long side, also on October 4, HUBG HUB Group was identified at 37.5, Exit 2/18 at 55 for +46.7%; TIE Titanium Metals on Jan 14 at 25.9, exit March 19 at 36.6 for +41.3%. There is no way to predict direction however down moves have generally come fast and furious, while up moves seem to take longer. Thank you all for your wonderful comments.

Hamlet
Newbie

Proposed Long gamma strategy
« **Reply #10 on:** April 18, 2005, 12:19:22 AM »

Greetings! I may be a tad off in my entry date on OSIP. I was away in Japan in early December and identified this stock (in honesty) as meeting the criteria of the algorithm on my return in late December. However it really does not matter when you got in OSIP in December as the stock was -- has been -- a great long gamma candidate since then. The dates for all other trades should be correct within a day or two. Note that I am not looking for a short term "day trading" or "swing trading" move. The algorithm identifies stocks with potential for large moves over the course of the following six months. However most moves have occurred within a three month time interval from date of identification. There have been some modest moves which were closed out mostly very early, within a week or two.

Ri$k Doctor
Administrator

Proposed Long gamma strategy
« **Reply #11 on:** April 18, 2005, 08:03:59 AM »

Totally get the concept. Your initial trades were not gamma long so you need to change the ratio but that means buying more, costing more and requiring more of a move.

Personally, I would not mind starting off short gamma as long as the long gamma kicked in withing 6% or 7% away from the current underlying level. In order to benefit from the time decay your going to need positive theta (inverse of gamma) so perhaps something is missing from your explanation of the "wrangle".

Hamlet
Newbie

Proposed Long gamma strategy
« **Reply #12 on:** April 19, 2005, 09:57:01 PM »

Greetings! On Page 69 in the book by Allen Jan Baird, ??Option Market Making?, he defines long butterfly as (with spot at 100): short 1*100 call, long 1*105 call; short 1*100 put, long 1*95 put. Long wrangle is defined as short 1*100 call, long 2*105 calls; short 1*100 put, long 2*95 puts. From page 127:"the butterfly ..slight positive theta in the center but incurs small losses on the wings. The wrangle...positive kappa/vega on the wings while neutralizing theta in the center." From page 127: "Because of their tri modality of risk the long butterfly and wrngle strategies are probably the most apprpriate stance ...if actual probability of futures price changes is semilog normal...will be positive to neutral theta during 68 percent of time that futures price changes [are within one standard deviation]. The rest of the time these positions will become neutral to positive kappa/vega when futures prices blow out." From page 126: "the optimum single month strategy would be exposed to limited delta positive theta and positive kappa/vega...would earn time decay profit while also earning profit on ...price swings...unfortunately the theoretically perfect option position is impossible for single month positions. That is why he suggests two complimentary position suggestions, butterfly in front month, wrangle in back month. If the spot does not move, he adjusts the wrangle into a butterfly and opens a new wrangle in a subsequent month.

Ri$k Doctor
Administrator
Hero Member

Proposed Long gamma strategy
« **Reply #13 on:** April 20, 2005, 07:32:35 AM »

The theory is all very sound. Love it. Please go out and find one and share the exact position and I will take it from there, analyse and illustrate the risk.

Belinea03
Newbie

Proposed Long gamma strategy
« **Reply #14 on:** July 04, 2005, 02:56:35 AM »

Try this one on for size.
GOOG has tendency to rest before making a major move. I'm uncertain where this one will end up as its had a steep rise and may fall any day now.
17th June 2005
GOOG @ 280.30
BTO 1 x 250/280/310 Jul05 Iron Fly for 16.40 Credit
BTO 2 x 250/310 Sept05 Strangle @ 20.70 each
27th June 2005
GOOG @ 304. Profit = 445
(No tears for having missed $24 run as stock could easily have been at 240 at this time.)
28th June 2005
GOOG (intraday) @ 307.2. Profit = 810
GOOG (close) @ 302. Profit = 520
[Coulda, Woulda, Shoulda thoughts? - Naaah

Could take the spread off or adjust for future movement. We know what the result of closing the spread will be. I'd continue following this one to see where it takes me as well as lessons to be learnt.
Adjustment
BTC 1 x 280/250 Put Spread @ 1.80 (opened for credit = $8.5).
MaxRisk = 780 vs 2600
profit = 320
Any comments?

July 13th:

Ri$k Doctor: Belinea: This is well thought out and a profitable scenario. Can you tell me how you arrived at "MaxRisk = 780 vs 2600"?
Here is how the trade is doing if you had made no adjustments so you are right about CWS because adjusting would have helped with profitability. Both spreads would be losing; the JUL iron butterfly is at a bigger credit and the SEP strangle is at a smaller debit.

GOOG | GOOGLE INC | CL A | Easy to Borrow | NASDAQ | Delta | Vega | 5

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
298.86 C	+7.076	298.80 C	298.85 C	2 x 2	11,340,470	292.51	299.24	292.10

OPTIONS | Single | Exchange: Composite

CALLS						PUTS			
DELTA	VEGA	BID X	ASK X	EXP	STRIKE	BID X	ASK X	DELTA	VEGA
JUL 05 (2) 100									25.01%
.98	.01	18.90 I	19.10 A	JUL 05	280	.05 B	.10 C	-.02	.01
.90	.05	9.20 A	9.40 C	JUL 05	290	.35 I	.40 X	-.10	.05
.44	.11	2.20 C	2.20 I	JUL 05	300	3.30 A	3.30 I	-.56	.11
.09	.04	.30 I	.35 I	JUL 05	310	11.30 A	11.60 A	-.91	.05
.03	.02	.10 I	.15 I	JUL 05	320	21.00 A	21.30 A	-.99	.01
AUG 05 (37) 100									44.02%
SEP 05 (65) 100									39.89%
.69	.45	31.40 C	31.70 A	SEP 05	280	10.90 C	11.10 A	-.31	.45
.62	.49	25.50 C	25.70 A	SEP 05	290	15.00 C	15.10 A	-.39	.49
.54	.50	20.50 P	20.70 A	SEP 05	300	20.00 C	20.10 A	-.47	.50
.46	.50	16.20 C	16.40 A	SEP 05	310	25.50 C	25.80 A	-.55	.50
.39	.49	12.70 C	13.00 A	SEP 05	320	32.10 P	32.40 A	-.62	.49

SPREAD	SIDE	QTY	SYMBOL	SPC	EXP	STRIKE	TYPE	PRICE	DELTA
IRON CONDOR	SELL	-1	GOOG	100	JUL 05	280	CALL	18.70	-98.85
	BUY	+1	GOOG	100	JUL 05	310	CALL		
	SELL	-1	GOOG	100	JUL 05	280	PUT		
	BUY	+1	GOOG	100	JUL 05	250	PUT		
STRANGLE	BUY	+2	GOOG	100	SEP 05	310	CALL	19.90	69.65
	BUY	+2	GOOG	100	SEP 05	250	PUT		

Hamlet
Newbie

Proposed Long gamma strategy
« **Reply #15 on:** July 04, 2005, 11:46:14 AM »

July 14, 2005 Prices (edited to reflect current values)
Greetings! I have found a candidate for a long gamma position. This is COGT, Cogent Corp, currently at 28.61. I propose to put on the following five positions. First, a long synthetic straddle. Second a long gut strangle. (If the stock trades close to but not beyond a break even point, I will sell the losing option, and sell half as many ATM options against the remaining long option, to convert the position into a long ratio back spread, at better prices than the market originally allowed). Third, a long gut strangle, selling half as many current month regular strangles. Fourth, a long straddle, but selling half as many current month regular straddles. Fifth, we wont trade this; we'll just see if we can wind up with an adjusted position that has better (closer) break even points.

I will use SEP for the front month, and DEC for the back month.

From the Options Chain, I have the following for each of the four spreads: First long synthetic straddle, long 5oo shares at 28.61; long 10 Dec 25 puts @ 1.55.

DELTA	GAMMA	THETA	VEGA	P/L OPEN	P/L DAY	BP EFFECT
241.07	40.27	-8.09	60.19	($52.16)	($52.16)	($8,702.50)

SIMULATED TRADES — CLEAR SIMULATED TRADES — SEND TRADES TO ORDER QUEUE

SPREAD	SIDE	QTY	SYMBOL	SPC	EXP	STRIKE	TYPE	PRICE	DELTA
SINGLE	BUY	+10	COGT	100	DEC 05	25	PUT	1.55	-258.93
STOCK	BUY	+500	COGT				STOCK	28.61	500.00

Second, long gut strangle. Long 10 Dec 25 calls @ 5.60, long 10 Dec 30 puts @ 3.70.

DELTA	GAMMA	THETA	VEGA	P/L OPEN	P/L DAY	BP EFFECT
231.53	93.73	-18.92	135.23	($151.88)	($151.88)	($9,300.00)

SIMULATED TRADES — CLEAR SIMULATED TRADES — SEND TRADES TO ORDER QUEUE

SPREAD	SIDE	QTY	SYMBOL	SPC	EXP	STRIKE	TYPE	PRICE	DELTA
SINGLE	BUY	+10	COGT	100	DEC 05	25	CALL	5.60	740.22
SINGLE	BUY	+10	COGT	100	DEC 05	30	PUT	3.70	-508.69

Third, long gut strangle, short half as many regular strangles. Same as #2 but add a sale of 5 SEP 25 puts @.65 and sell 5 SEP 30 calls @ 1.50.

DELTA	GAMMA	THETA	VEGA	P/L OPEN	P/L DAY	BP EFFECT
112.36	28.00	-4.93	94.44	($176.27)	($176.27)	($8,225.00)

SIMULATED TRADES — CLEAR SIMULATED TRADES — SEND TRADES TO ORDER QUEUE

SPREAD	SIDE	QTY	SYMBOL	SPC	EXP	STRIKE	TYPE	PRICE	DELTA
SINGLE	BUY	+10	COGT	100	DEC 05	25	CALL	5.60	740.22
SINGLE	BUY	+10	COGT	100	DEC 05	30	PUT	3.70	-508.69
SINGLE	SELL	-5	COGT	100	SEP 05	30	CALL	1.50	-220.30
SINGLE	SELL	-5	COGT	100	SEP 05	25	PUT	.65	101.14

Fourth, Long straddle, short half as many short term straddles. Long 10 Dec 25 straddles (+10 Dec 25 calls @ 5.60 and +10 Dec 25 puts @ 1.55). Selling (5) SEP 25 calls @4.40 and selling (5) SEP 25 puts @ 0.65.

DELTA	GAMMA	THETA	VEGA	P/L OPEN	P/L DAY	BP EFFECT
185.10	26.41	-5.85	86.68	($191.40)	($191.40)	($4,625.00)

SIMULATED TRADES — CLEAR SIMULATED TRADES — SEND TRADES TO ORDER QUEUE

SPREAD	SIDE	QTY	SYMBOL	SPC	EXP	STRIKE	TYPE	PRICE	DELTA
SINGLE	BUY	+10	COGT	100	DEC 05	25	CALL	5.60	740.22
SINGLE	BUY	+10	COGT	100	DEC 05	25	PUT	1.55	-258.93
SINGLE	SELL	-5	COGT	100	SEP 05	25	PUT	.65	101.14
SINGLE	SELL	-5	COGT	100	SEP 05	25	CALL	4.40	-397.32

Fifth, As a benchmark on COGT, let's also consider the ratio backspread of short (Dec 22.5 calls @ 7.20 and long 10 Dec 25 calls @ 5.60.

DELTA	GAMMA	THETA	VEGA	P/L OPEN	P/L DAY	BP EFFECT
72.33	15.89	-3.51	23.48	($21.46)	($21.46)	($1,680.00)

SIMULATED TRADES — CLEAR SIMULATED TRADES — SEND TRADES TO ORDER QUEUE

SPREAD	SIDE	QTY	SYMBOL	SPC	EXP	STRIKE	TYPE	PRICE	DELTA
BACKRATIO	SELL	-8	COGT	100	DEC 05	22.5	CALL	-1.60	72.33
	BUY	+10	COGT	100	DEC 05	25	CALL		

If you could please analyze these four positions that would be awesome. Let??s follow each of the four and either profit, adjust, or close as indicated.

I'd simply like to find a way to create a long gamma position with a better chance of success by selling some time against it or by starting with one position say a gut strangle and then adjusting it into a ratio back spread. Either way I'd like to end up long gamma but with a better position, for example closer beakeven points than if I simply put on a ratio backspread using at the market prices. I appreciate any help. Thank you in advance for your comments,

Thanks, Arthur (Hamlet)

Ri$k Doctor
Administrator
Hero Member

Proposed Long gamma strategy
« **Reply #16 on:** July 13, 2005, 02:37:21 PM »

Hamlet:Your choices of trades are very costly compared to their synthetic equivalents. The ITMs trade on wider markets than the OTMs. A better choice than the DEC25C and the DEC30P would be the DEC25P and the DEC30C. Currently the markets for your choice are only slightly wider but look at the SEP to give you an idea of what you may be faced with upon getting out.

There are larger deltas in your Scenarios 1 and 2 compared to the last 3 which are only slightly long delta. I see that there was no DEC 27.5 Puts to be more neutral but why did you choose 5oo shares instead of say 3oo?

COGT — COGENT INC — Easy to Borrow — NASDAQ — Delta — Vega — 5

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
28.61 Q	+.10	28.61 C	30.00 P	2 x 1	760,550	28.97	29.58	28.22

OPTIONS — Single — Exchange Composite

CALLS DELTA	CALLS VEGA	CALLS BID X	CALLS ASK X	EXP	STRIKE	PUTS BID X	PUTS ASK X	PUTS DELTA	PUTS VEGA
JUL 05 (1) 100									50.42%
AUG 05 (36) 100									44.41%
SEP 05 (64) 100									42.05%
.96	.01	8.70 A	9.00 A	SEP 05	20	.10 A	.25 A	-.05	.01
.88	.02	6.50 A	6.80 A	SEP 05	22.5	.30 A	.45 A	-.11	.02
.79	.03	4.30 A	4.60 A	SEP 05	25	.60 A	.75 A	-.20	.03
.44	.05	1.45 A	1.60 A	SEP 05	30	2.65 A	2.85 A	-.57	.05
.14	.03	.25 A	.40 A	SEP 05	35	6.40 A	6.70 A	-.89	.03
DEC 05 (155) 100									41.32%
.91	.03	9.10 A	9.50 A	DEC 05	20	.40 C	.50 A	-.09	.03
.83	.05	7.10 A	7.50 A	DEC 05	22.5	.75 A	.95 A	-.16	.05
.74	.06	5.30 A	5.70 A	DEC 05	25	1.40 A	1.60 A	-.26	.06
.50	.07	2.60 A	2.85 A	DEC 05	30	3.50 A	3.80 A	-.51	.07
.28	.06	1.10 A	1.25 P	DEC 05	35	7.00 A	7.40 A	-.74	.06

Belinea03
Newbie

Proposed Long gamma strategy

« **Reply #17 on:** July 25, 2005, 06:06:02 AM »

Hi Charles,

Wasn't aware you had responded. Maybe you'll need to adjust the forum so that noitification of new postings are sent to interested e-mails addresses.

To answer your question: I fell into the old trap of trusting the figures from my option analysis software which proved to be wrong. Lesson learnt: don't blindly trust technology!

Ri$k Doctor
Administrator
Hero Member

Proposed Long gamma strategy

« **Reply #18 on:** July 27, 2005, 03:00:53 PM »

You must click "Track This Topic" at the top of the page, and an email will be sent to you.

Belinea03
Newbie

Proposed Long gamma strategy

« **Reply #19 on:** July 27, 2005, 04:49:43 PM »

Thanks.

Tharma

RIMM

« **on:** June 20, 2005, 12:23:19 AM »

The consolidation around the 20 day MA suggests a move equal to the previous down move from 84 to 72 making the target after the breakout around 60. Some other interesting points are: The biggest bar of the down move occurred on substantially higher volume and closed the gap from mid March. It is now consolidating around the 20d suggesting it will test the underside of the 200d before resuming the fall to 60ish. This should also prove to be a minor stopping point as it is also this years previous low. That would also make a double top / double bottom and once it gives way, RIMM could fall a lot more. So -12 pts in the next few weeks, a pause, then another 10-20pt decline. So who wants to play?

Ri$k Doctor
Administrator
Hero Member

RIMM

« **Reply #1 on:** June 20, 2005, 09:51:41 AM »

You make a tempting case here. Some will be motivated to go with more of a sure thing, some will go for the long shot, some will play for the short term move, others of the longer term move and some for both the long term and the short term. Well?

RIMM RESEARCH IN MOTION LTD Easy to Borrow NASDAQ Vega Theta 8

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
73.94 Q	-.08	73.94 Q	73.96 C	1 x 1	4,402,908	74.84	75.50	73.68

YIELD	PE	EPS	DIV	DIV.FREQ	DIV.DATE	52HIGH	52LOW	BETA	SHARES
0.00%	35.04	2.11	0	--	N/A	103.56	52.249	3.385	189,485,000

OPTIONS Single Exchange Composite

CALLS						PUTS			
VEGA	THETA	BID X	ASK X	EXP	STRIKE	BID X	ASK X	VEGA	THETA
JUL 05 (25) 100									52.37%
.02	-.03	19.20 I	19.40 I	JUL 05	55	.20 C	.25 I	.02	-.02
.03	-.04	14.50 I	14.70 I	JUL 05	60	.45 I	.55 I	.03	-.04
.05	-.06	10.10 I	10.30 I	JUL 05	65	1.10 I	1.20 I	.05	-.06
.07	-.08	6.40 I	6.60 I	JUL 05	70	2.40 C	2.45 I	.07	-.07
.08	-.08	3.70 B	3.80 I	JUL 05	75	4.50 I	4.70 I	.08	-.08
.07	-.07	1.90 C	2.00 I	JUL 05	80	7.80 C	7.90 I	.07	-.07
.05	-.05	.90 C	.95 P	JUL 05	85	11.70 I	11.90 I	.05	-.04
.03	-.03	.40 C	.45 P	JUL 05	90	16.20 I	16.40 I	.03	-.02
AUG 05 (60) 100									49.75%
.05	-.03	20.00 I	20.20 I	AUG 05	55	.75 I	.85 B	.05	-.02
.07	-.04	15.60 I	15.90 I	AUG 05	60	1.40 I	1.50 B	.07	-.03
.09	-.05	11.70 I	11.90 I	AUG 05	65	2.50 I	2.55 I	.09	-.04
.11	-.05	8.40 B	8.50 I	AUG 05	70	4.10 B	4.20 I	.11	-.05
.12	-.05	5.60 I	5.80 I	AUG 05	75	6.30 I	6.50 I	.12	-.05
.12	-.05	3.60 I	3.80 I	AUG 05	80	9.30 I	9.50 I	.12	-.04
.10	-.04	2.25 I	2.35 I	AUG 05	85	12.90 I	13.10 I	.10	-.04
.08	-.03	1.35 I	1.45 I	AUG 05	90	17.00 I	17.20 I	.08	-.03
SEP 05 (88) 100									49.28%
.07	-.03	20.70 I	20.90 I	SEP 05	55	1.35 I	1.45 I	.07	-.02
.10	-.03	16.60 I	16.80 I	SEP 05	60	2.25 C	2.30 I	.10	-.03
.12	-.04	12.90 I	13.10 I	SEP 05	65	3.40 I	3.60 I	.12	-.03
.14	-.04	9.60 I	9.80 I	SEP 05	70	5.10 I	5.30 I	.14	-.04
.15	-.04	6.90 I	7.10 I	SEP 05	75	7.40 I	7.50 I	.15	-.04

Rudi_P
RD3
Newbie

RIMM

« **Reply #2 on:** June 21, 2005, 08:22:22 AM »

Short term I think that RIMM will go up and trade beyond 80 and then fall back into the trading range. My proposal would be to sell a Jul 75/80 bull put spread for 3.00. Once the target of 80 to 82 is reached we buy back the spread and prepare for a fall in the price by buying directional put calendarised diagonals, eg long the Dec 60 put and sell the short term 70s or 65s against this. Goal is to hold the Dec put for free by Sep or earlier.

Rudi

Ri$k Doctor
Administrator
Hero Member

RIMM

« **Reply #3 on:** June 21, 2005, 01:26:34 PM »

OK, but it will have to be a while before the delta of the DEC 60 puts becomes greater than a higher strike in a closer month.

RIMM | RESEARCH IN MOTION LTD | Easy to Borrow | NASDAQ | Theta | Delta | 7

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
74.08 C	+.06	73.88 Q	73.72 Q	2 x 1	3,430,977	74.65	74.76	73.87

YIELD	PE	EPS	DIV	DIV.FREQ	DIV.DATE	52HIGH	52LOW	BETA	SHARES
0.00%	35.11	2.11	0	--	N/A	103.56	52.249	3.385	189,485,000

OPTIONS | Single | Exchange Composite

CALLS						PUTS			
THETA	DELTA	BID X	ASK X	EXP	STRIKE	BID X	ASK X	THETA	DELTA
JUL 05 (24) 100									47.24%
-.04	.93	14.50 C	14.70 C	JUL 05	60	.35 I	.45 I	-.03	-.07
-.05	.85	10.00 I	10.20 C	JUL 05	65	.85 I	.95 I	-.05	-.15
-.07	.70	6.10 I	6.40 I	JUL 05	70	1.95 I	2.10 I	-.07	-.30
-.08	.49	3.20 I	3.40 I	JUL 05	75	4.00 I	4.20 I	-.07	-.51
-.06	.29	1.50 I	1.65 I	JUL 05	80	7.20 I	7.40 I	-.06	-.72
-.04	.15	.65 C	.75 I	JUL 05	85	11.30 I	11.60 I	-.04	-.86
-.03	.07	.25 X	.35 I	JUL 05	90	15.90 I	16.20 I	-.02	-.95
AUG 05 (59) 100									47.18%
SEP 05 (87) 100									47.59%
-.03	.83	16.50 C	16.80 C	SEP 05	60	2.05 I	2.15 I	-.03	-.17
-.04	.75	12.70 I	13.00 C	SEP 05	65	3.20 I	3.40 I	-.03	-.25
-.04	.65	9.40 I	9.70 I	SEP 05	70	4.80 I	5.00 I	-.04	-.35
-.04	.54	6.70 I	6.90 I	SEP 05	75	7.00 I	7.20 I	-.04	-.47
-.04	.42	4.50 I	4.70 I	SEP 05	80	9.80 I	10.10 I	-.03	-.59
-.04	.32	2.95 I	3.10 I	SEP 05	85	13.20 C	13.40 I	-.03	-.70
-.03	.22	1.75 I	1.90 I	SEP 05	90	17.10 C	17.30 I	-.02	-.80
DEC 05 (178) 100									48.80%
-.03	.78	19.00 C	19.40 C	DEC 05	60	4.00 C	4.20 I	-.02	-.22
-.03	.72	15.60 C	16.00 C	DEC 05	65	5.50 C	5.80 I	-.02	-.28
-.03	.65	12.70 C	13.00 C	DEC 05	70	7.50 I	7.70 C	-.02	-.36
-.03	.57	10.10 C	10.40 C	DEC 05	75	9.80 C	10.10 C	-.03	-.44
-.03	.49	7.90 I	8.10 C	DEC 05	80	12.60 C	12.80 C	-.02	-.52
-.03	.41	6.00 I	6.30 C	DEC 05	85	15.70 C	15.90 I	-.02	-.60

Tharma

RIMM

« **Reply #4 on:** June 22, 2005, 08:06:04 AM »

Hi Charles

Up until JUL expiry, I believe that RIMM is likely to experience resistance at 80 and support at 70. As such, I am inclined to put on 15 JUL 65 / 70 / 80 / 85 iron condor - note the condor is spaced out by one strike in the middle. I would aim for approximately a $2.50ish credit and would be happy to exit with half of this potential profit. Whilst this may be considered a low return trade, it should be a high probability trade.

SPREAD	SIDE	QTY	SYMBOL	SPC	EXP	STRIKE	TYPE	PRICE		DELTA
IRON CONDOR	SELL	-15	RIMM	100	JUL 05	80	CALL	2.50		-143.17
	BUY	+15	RIMM	100	JUL 05	85	CALL			
	SELL	-15	RIMM	100	JUL 05	70	PUT			
	BUY	+15	RIMM	100	JUL 05	65	PUT			

There is the issue of how do I protect against breakout moves below the 70 and 80 short strikes, and do so at low cost. I would put on two 1by2by2 butterflies above and below the condor as follows: +4JUL65P / -8AUG60P / +8AUG55P and +4JUL85C / -8AUG90C / +8AUG95C. Note that I am going out to AUG for the 55 / 60 and 90 / 95 credit spreads to get enough premium to finance the JUL 65 and JUL 85 wings, and, therefore, to do the 4by8by8 butterflies for even money or a small credit.

As regards management, the area of concern 1.5 weeks or less before JUL expiry is at the 65 and 85 strikes. If in this situation, I would be looking for a $2 move in the stock price in either direction away from these strikes, and then looking to exit the options with value. If such a move failed to occur, I would consider just exiting the trade. After JUL expiry, the remaining trade would be an AUG 55 / 60 / 90 / 95 iron condor. If there was very little value left in this condor, I would exit. If the stock was at 60 or 90 at JUL expiry, I would buy back the ATM AUG verticals, that is either the 90 / 95 or 55 / 60 vertical, and finance this purchase by selling the ITM JUL 85 call or 65 put, which were originally part of the calendarised slingshot.

I have emailed you the position dissector spreadsheet of this trade. Note that because the current stock price is outside the range of the Position Dissector, I have halved the strike values and put the trade in accordingly. Could you please attach to the post?

What do you think about this strategy?

Kind regards

Tharma

Tharma

RIMM
« **Reply #5 on:** June 22, 2005, 09:05:14 AM »

If I understand you right the position is both call+put backspreads in Jul, and a Condor in Aug. The Jul backspreads are done for close to even money and the Aug condor for a 2.00 cr. So why not just do the Condor? or at least reverse the months and put the backspread further out.

Ri$k Doctor
Administrator
Hero Member

RIMM
« **Reply #6 on:** June 23, 2005, 01:02:27 PM »

Pjs: It is only a strangle in JUL protecting the Iron in AUG.

PivotK 75 — Month JUL — PivotK

Raw Position / Butterfly Dissector / WorkSheet

nC	rC	K	rP	nP	K		CBf	PBf	IBf	K	C	K	P
		55			55					55		55	
		60			60					60		60	
		65	4	4	65					65		65	4
		70			70					70		70	
		75			75					75		75	
		80			80					80		80	
4	4	85			85					85	4	85	

PivotK 75 — Month AUG — PivotK AUG

Raw Position / Butterfly Dissector / WorkSheet

nC	rC	K	rP	nP	K		CBf	PBf	IBf	K	C	K	P
		55	8	8	55					55		55	
		60	(8)	(8)	60	8			8	60		60	
		65			65	8			8	65		65	
		70			70	8			8	70		70	
		75			75	8			8	75		75	
		80			80	8			8	80		80	
		85			85	8			8	85		85	
(8)	(8)	90			90	8			8	90		90	
8	8	95			95					95		95	

RIMM RESEARCH IN MOTION LTD Easy to Borrow NASDAQ Delta Gamma 10

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
78.82 C	+4.74	78.81 C	78.83 C	3 x 2	9,223,766	74.25	78.94	74.01

YIELD	PE	EPS	DIV	DIV.FREQ	DIV.DATE	52HIGH	52LOW	BETA	SHARES
0.00%	37.36	2.11	0	--	N/A	103.56	52.249	3.385	189,485,000

OPTIONS — Single — Exchange Composite

CALLS DELTA	CALLS GAMMA	CALLS BID X	CALLS ASK X	EXP	STRIKE	PUTS BID X	PUTS ASK X	PUTS DELTA	PUTS GAMMA
JUL 05 (23) 100									50.39%
.98	.00	23.90 I	24.20 I	JUL 05	55	.10 I	.15 B	-.02	.00
.96	.01	19.10 I	19.30 C	JUL 05	60	.25 I	.30 B	-.05	.01
.91	.01	14.40 I	14.70 I	JUL 05	65	.55 I	.65 I	-.10	.01
.82	.02	10.10 I	10.30 C	JUL 05	70	1.20 I	1.30 C	-.18	.02
.68	.03	6.30 I	6.50 C	JUL 05	75	2.50 I	2.55 I	-.33	.03
.49	.04	3.50 I	3.70 C	JUL 05	80	4.60 C	4.70 C	-.52	.04
.30	.04	1.70 I	1.75 C	JUL 05	85	7.70 I	7.90 I	-.70	.04
.16	.03	.75 C	.85 I	JUL 05	90	11.70 I	12.00 I	-.84	.03
.07	.01	.25 I	.35 I	JUL 05	95	16.30 I	16.60 I	-.92	.02
.03	.01	.10 C	.15 I	JUL 05	100	21.10 I	21.40 I	-.96	.01
AUG 05 (58) 100									47.60%
.95	.01	24.50 I	24.70 I	AUG 05	55	.40 I	.50 I	-.05	.01
.91	.01	19.90 I	20.10 I	AUG 05	60	.80 C	.90 I	-.09	.01
.85	.01	15.60 I	15.80 I	AUG 05	65	1.50 P	1.60 I	-.16	.01
.76	.02	11.70 I	11.90 I	AUG 05	70	2.55 P	2.70 I	-.24	.02
.65	.02	8.30 I	8.50 I	AUG 05	75	4.10 I	4.30 I	-.36	.02
.52	.03	5.60 I	5.70 I	AUG 05	80	6.40 C	6.60 I	-.49	.03
.39	.03	3.50 I	3.70 I	AUG 05	85	9.30 I	9.50 I	-.62	.03
.27	.02	2.15 P	2.25 I	AUG 05	90	12.90 C	13.20 I	-.73	.02
.18	.02	1.25 P	1.30 I	AUG 05	95	17.00 C	17.30 I	-.83	.02
.11	.01	.70 C	.75 I	AUG 05	100	21.50 C	21.80 I	-.90	.01

SPREAD	SIDE	QTY	SYMBOL	SPC	EXP	STRIKE	TYPE	PRICE	DELTA
IRON CONDOR	SELL	-8	RIMM	100	AUG 05	90	CALL	1.30	-38.75
	BUY	+8	RIMM	100	AUG 05	95	CALL		
	SELL	-8	RIMM	100	AUG 05	60	PUT		
	BUY	+8	RIMM	100	AUG 05	55	PUT		

SPREAD	SIDE	QTY	SYMBOL	SPC	EXP	STRIKE	TYPE	PRICE	DELTA
STRANGLE	BUY	+4	RIMM	100	JUL 05	85	CALL	2.25	76.52
	BUY	+4	RIMM	100	JUL 05	65	PUT		

Tharma: I get the intent about being motivated to do this for even money and I understand that your ratio of JUL strangles to AUG Irons was determined by the prices but the fact is that this is all synthetically a big debit and the Iron's credit did not pay for the JUL strangle and therefore your ratio may need further consideration and perhaps a change of strikes and months may be warranted. The AUG iron is risking 3.70ish to make 1.30 ish, 8 times. That is a synthetic debit of 2,960 and add 4 JUL strangles at 2.25ish for another 900 bringing the total on the table to $3,860. Still want to do the trade this way?

Tharma

RIMM

« **Reply #7 on:** June 29, 2005, 01:31:00 AM »

Hi All,

Pjs and Charles thanks for your feedback. Pjs you make a very good point in that even though I did not mean to have a position of 2 ratio backspreads these backspreads are embedded in the position and they do provide me another way of looking at the risk profile.

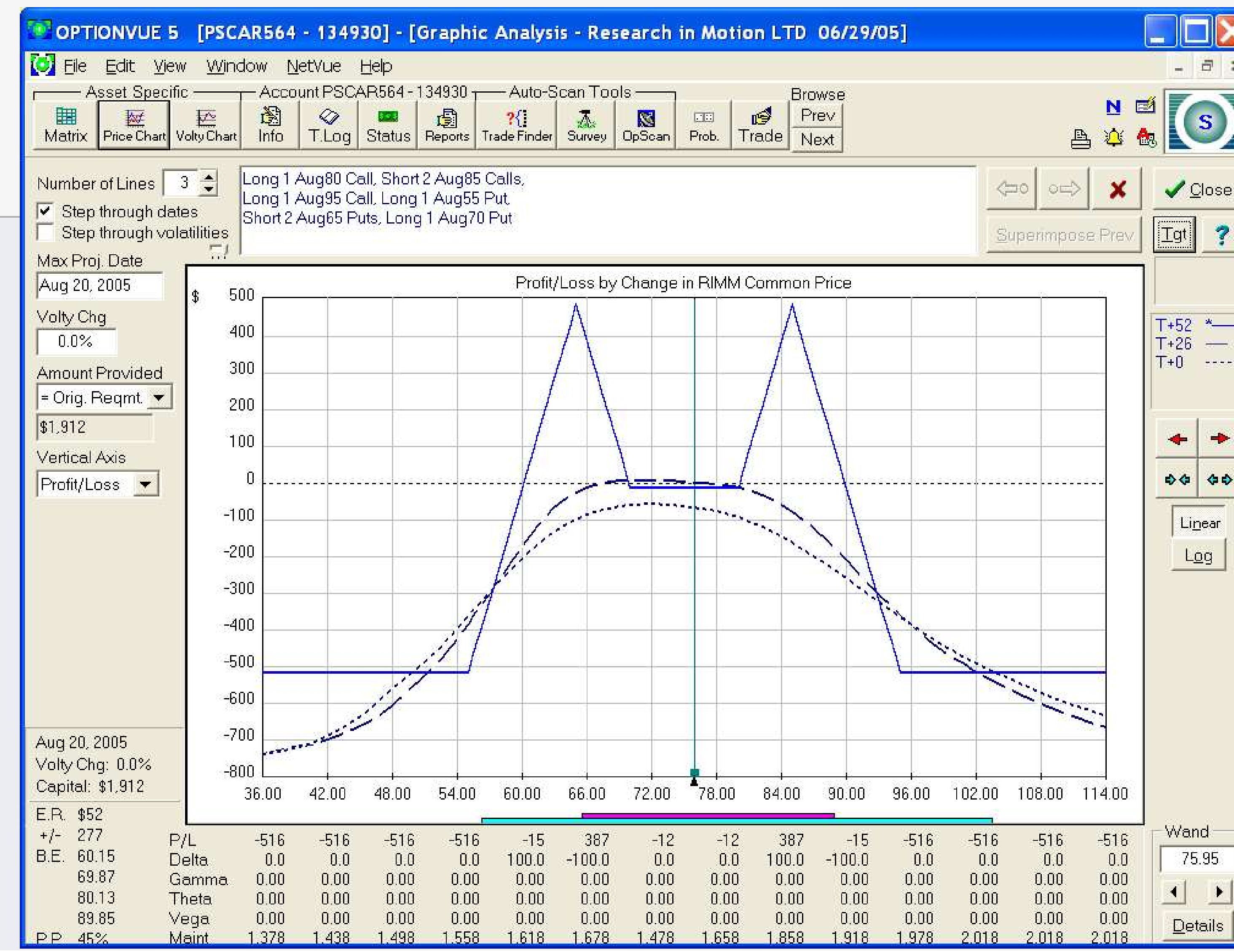
Charles,thanks for setting out the cashflows for this position and what the real debit from this position is. If I look at this risk I would not do this trade.

I have been thinking what is a more appropriate trade based on direction and risk and I choose the 60/65 /90/95 Iron Condor in Aug for a 1.3 credit.

What do you think about this strategy?

Kind regards

Tharma



Pjs

RIMM

« **Reply #8 on:** June 29, 2005, 08:40:51 AM »

Tharma,
I liked the condor too. But it seemed as though 65 was north of the support area which would make an adjustment a higher probability. And the 60/55 had too small a credit to be worth while. (BTW what is too small - .40 on a $5 spread seems like a lousy RR but the prob of profit is higher?) Looking at the $10 wide condor this AM for a 1.90 doesn't seem much better. So how about 2 brokenwing flies: 80/85/95c + 70/65/55p. More commissions but should get for about .10. It would widen the BEs to 60/90ish.

PivotK 75 — Month AUG — Raw Position — Butterfly Dissector — PivotK 75 — WorkSheet

nC	rC	K	rP	nP	K		Bfly1	Bfly2	Bfly3	K	C	K	P
		50			50					50		50	
		55	10	10	55					55		55	
		60			60	10			10	60		60	
		65	(20)	(20)	65	20		10	10	65		65	
		70	10	10	70	10			10	70		70	
		75			75	10			10	75		75	
10	10	80			80	10			10	80		80	
(20)	(20)	85			85	20	10		10	85		85	
		90			90	10			10	90		90	
10	10	95			95					95		95	
		100			100					100		100	
		Net			Net	90	10		70	Net		Net	

Ri$k Doctor
Administrator
Hero Member

RIMM
« **Reply #9 on:** June 29, 2005, 08:44:09 AM »

Hi Tharma: Here is what I think. You know that any trade can make money (obviously it can also lose money). Is it a good trade to buy GOOG at $300 when others have gotten it for $60? Could be. It was a tough decision at $200, I am sure.

Your Iron for a 1.30 credit may be a winner or it may be a loser. It may be right for you and not for another who views the reality of risking 3.70 to make 1.30 (1.20 when you cover the nickles (.05) twice) as not being worth while.

A week earlier, perhaps you could have gotten 1.40. Maybe if you wait a week you will only get 1.25. When it all goes out worthless will the better trade be the 1.40 or the 1.25? It is not always about price and timing. Why are you not choosing to get the SEP for 1.80 credit? It probably has to do with how you see the price patterns in the stock and your sense of timing.

The style of one trader may be when it is not working he gets pushed into high gear and puts the type of defensive play that makes way more than the 1.30 opportunity originally intended. How? Perhaps he plans to Slingshot the call spread by buying half as many 80 calls when RIMM breaks a certain resistance level----Next stop: RIMM 120--all getting off, watch your step. All getting on, welcome to the RIMM ride.

Obviously you are comfortable with risking more to make less on this high probability type trade. If you are comfortable with the risk--if you have a game plan in place for when it is working--if you have game plan in place for when it is not working, 'I think' it's great -- for you.

Ri$k Doctor
Administrator
Hero Member

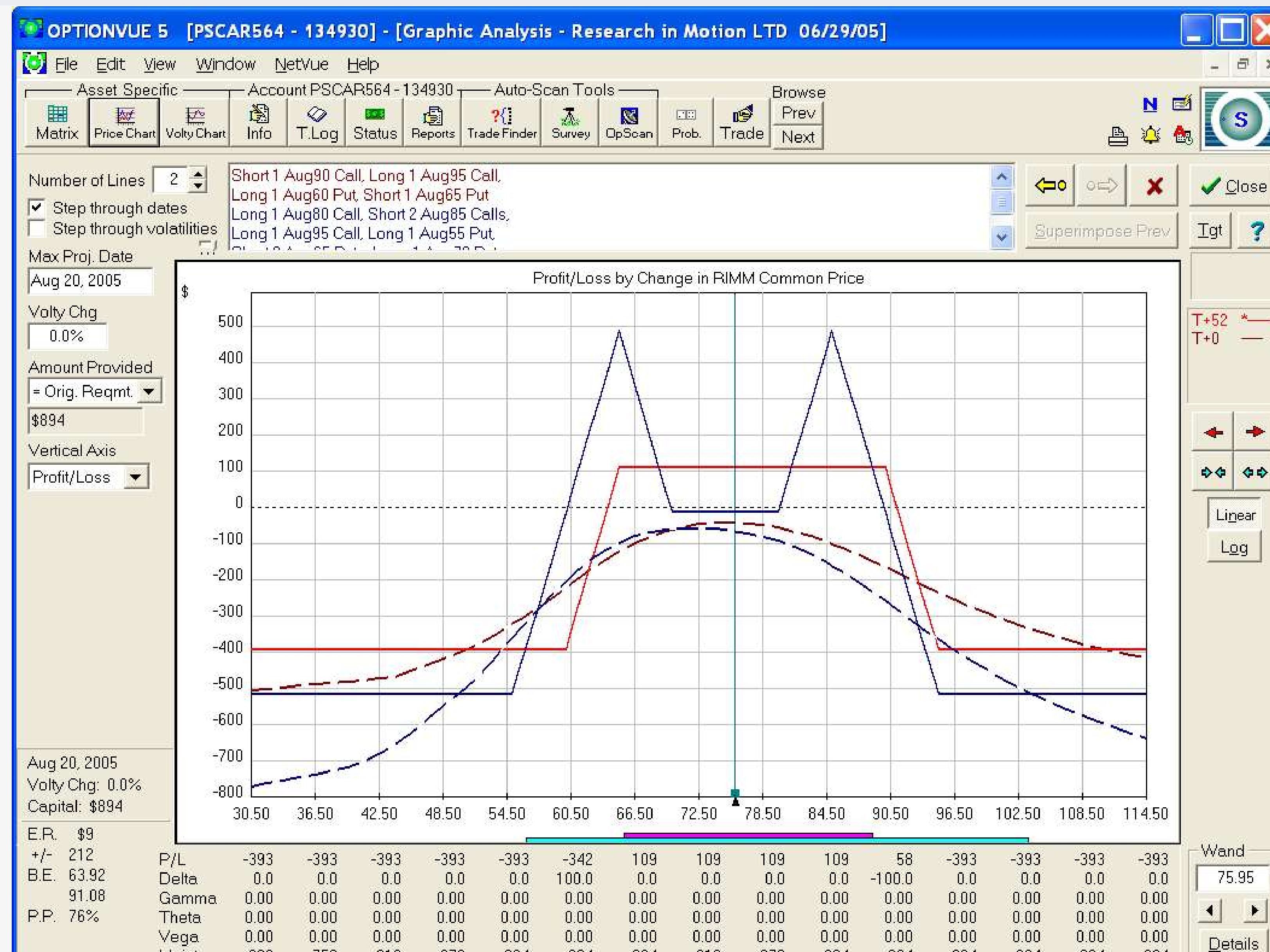
RIMM
« **Reply #10 on:** June 29, 2005, 08:53:49 AM »

I think the two strategies are different in that the objecive in PJ's is to be away from the current level but not too far. Tharma's. on the otherhand wants it here.

Pjs

RIMM
« **Reply #11 on:** June 29, 2005, 09:04:39 AM »

Here are both positions superimposed. The PP (probability of profit for Tharma's is 76% and PJ's is 45%) This makes sense because as RD says the condor wants price to stay put.which is more the average for stocks. Where as the other position is looking for more of a move.



Tharma

RIMM
« **Reply #12 on:** July 03, 2005, 01:02:55 AM »

Hi Charles & Pjs,

Thanks for your detailed feedback.

Charles, I think I understand what you were saying in your last email. I do have a plan to manage the trade if it starts to get near one of the short strikes,

For example if the stock gets close to one of the short strikes and I think that:

1. It is either going to move strongly below 65 or above 90 I would consider a slingshot as you described.

2. It is going to stay around the short strike I would create the iron butterfly at the short strike. For example, if the stock moved up to 90 and I though it was going to stay around this price until close to expiry i would consider buying back the 60/65 put vertical and selling the 85/90 put vertical (if I foundthe prices agreeable).

3. The stock is going to move back into the middle range of the condor I might consider doing nothing.

Pjs thank for you idea of the batman trade. It is better in that your trade widens the breakevens but I prefer to have the mid-range between $70 to $80 as a range where I can make money which is why I would still prefer the condor.

What do yu think about my gameplan?

Kind regards.

Tharma

Ri$k Doctor
Administrator
Hero Member

RIMM
« **Reply #13 on:** July 04, 2005, 03:54:14 PM »

Tharma: Why wait for RIMM to get to 65 or 90 for you to act? You have designed a play based on certain technical analysis and you believe the stock to stay between 70 and 80 (June 22nd post). Perhaps you need to be prepared to do something at 70 or 80 to be consistent with your opinion?

Tharma

RIMM
« **Reply #14 on:** July 04, 2005, 06:11:05 PM »

1st. I wouldn't wait until the short strike was reached to act. I would think in terms of rolling the short strike away using a cheap butterfly. i.e. move the whole spread a strike further away.
2nd. By adjusting into a butterfly you've made a choice about time and price. It might be more interesting to NOT buy back the further OTM spread and simply sell another credit spread as you suggested but making a smaller condor instead of a fly. Maybe even doing that several times as the price moves back and forth.

Ri$k Doctor
Administrator
Hero Member

RIMM
« **Reply #15 on:** July 04, 2005, 06:29:38 PM »
pjs: That is a reasonable approach but I would remind all that occasionally the the method of playing 'keep away' by roolling verticals can be expensive and fail to solve the problem in some cases when the stock shoots through target areas. It would be wise to remain open to the idea of slingshotting the short vertical as an alternative means of defending the bad vertical if certain criteria are met.

Tharma

RIMM
« **Reply #16 on:** July 06, 2005, 04:12:29 AM »
Hi Charles and PJS

Charles you make a good point of taking action at my previous resistance and support levels because it may be a lot easier and cheaper to do so.

Also pjs you have a great idea of rolling the verticals to different strikes using cheap butterflies and this may be appropriate if i felt that there was a good chance it would stay within the new short strikes.

I think if the stock started moving out of my support and resistance levels, especially on a stock like RIMM I would probably favour the slingshot approach just because this stock can move quite quickly in a short period of time.

Thanks for the feedback!

Tharma

Ri$k Doctor
Administrator
Hero Member

RIMM
« **Reply #17 on:** July 13, 2005, 02:21:20 PM »
pjs:RIMM is close to 70, your support level. Have you a plan for an adjustment / profit taking / rebalancing?

Tharma

RIMM
« **Reply #18 on:** July 13, 2005, 03:40:04 PM »
My original analysis suggested a consolidation around 70 and then a fall to 60ish. The August Batman still has positive theta. I would like to see price hang around here for a few days or more. But the best thing to do now is roll the put fly into a condor with +1 60 fly = 70/65/60/55. Cost about 50 cents but gives us another $2 on the downside.

Tharma

RIMM
« **Reply #19 on:** July 18, 2005, 10:05:25 AM »

Hi All

As you remember I did an Aug Iron Condor on RIMM at 60/65/90/95. The 90/95 vertical is now worthless so I will buy it back for .05 the 60/65 vertical is now still worth .50 given that the stock is at $71.

I am worried about a move down to 65 so I have decided to buy the 60/65 spread back as well for .50 per spread.

My final P/L is a profit of 0.75 per spread (1.30 - (.05 + .50).
I felt this was the right action because I was worried about a move down towards $65 and if this had come to pass my 60/65 vertical would be valued at approximately 1.60 using comparable prices today.

What do you all think about what i did? Any alternative strategies?Thanks for the feedback.

Tharma

Tharma

RIMM
« **Reply #20 on:** July 18, 2005, 03:00:44 PM »

There's nothing wrong with taking profit. And I think the risk to the downside is high. The only variation I could come up with is a unbalanced 65/60/55 put butterfly of +1/-3/+2 for about .20. If RIMM does fall but stays above 57.5 you make some nice profit.

Ri$k Doctor
Administrator
Hero Member

RIMM
« **Reply #21 on:** July 19, 2005, 11:52:39 AM »

Tharma:Excellent! In other words (other than "you are worried") you would not short the 60/65 put vertical at .50 so buy it back.

It is not worth slingshotting because it is still too costly. In other words, to buy half as many 70P to protect the 60/65 put vertical credit spread would cost 2.15 (half as many of those is twice more than the cost of the vertical. A 3rd as many of the 75P at 4.90 is way more than that. Fot my money, I think you made a good decision to take profits given your market forecast.

RIMM RESEAR... Easy to Borrow NASDAQ Impl Vol Vega 11

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
71.60 Q	+.66	71.58 C	71.60 Q	2 x 5	3,560,340	71.60	72.00	70.46

OPTIONS Single Exchange Composite

AUG 05 (31) 100 34.67%

CALLS IMPL VOL	CALLS VEGA	CALLS BID X	CALLS ASK X	EXP	STRIKE	PUTS BID X	PUTS ASK X	PUTS IMPL VOL	PUTS VEGA
0.00%	.00	24.10 C	24.30 I	AUG 05	47.5	0 I	.05 C	58.93%	.00
59.04%	.01	21.70 C	21.90 C	AUG 05	50	.05 A	.10 I	59.72%	.01
51.90%	.02	16.80 C	17.00 C	AUG 05	55	.10 I	.15 I	49.75%	.01
40.95%	.03	11.90 C	12.10 C	AUG 05	60	.25 I	.30 B	42.12%	.03
37.67%	.05	7.50 C	7.60 X	AUG 05	65	.75 C	.80 A	37.54%	.05
34.35%	.08	3.80 C	3.90 A	AUG 05	70	2.10 C	2.15 A	34.98%	.08
34.10%	.08	1.60 I	1.65 C	AUG 05	75	4.80 I	4.90 C	34.04%	.08
34.72%	.05	.55 I	.60 A	AUG 05	80	8.80 C	8.90 C	35.14%	.05
35.38%	.03	.15 I	.20 B	AUG 05	85	13.40 C	13.60 C	36.92%	.03
38.41%	.01	.05 I	.10 I	AUG 05	90	18.30 C	18.50 C	0.00%	.00
46.14%	.01	.05 A	.10 I	AUG 05	95	23.30 C	23.50 C	0.00%	.00

Tharma

RIMM
« **Reply #22 on:** July 20, 2005, 02:02:41 AM »

Hi Charles and PJS,

Thanks for the feedback!

Charles, you are right given my bearish directional bias I did not feel a 50c reward was worth a $4.50 risk now.

Charles & PJS, I understand your unbalanced fly of 65/60/55 done in a 1/-3/2 ratio respectively ...pretty interesting trade.
Initially my concern in looking at this trade was the expiration risk profile which looked quite frightening...but then when I looked at comparable prices I see that even if the move

happens and the stock goes below 57.5 and as long as we are not close to expiry the loss on this strategy could still be a lot lower that at expiry because of the time value component. Am I right in saying this...if so....it is not a bad alternative to consider since it seems to me that the major risk in this strategy (i.e. if the stock moves below 57.5) will probably only be realised in the last 1.5 weeks.

Kind regards

Tharma

Tharma

RIMM
« **Reply #23 on:** July 20, 2005, 03:15:35 AM »

I thought the 1/-3/2 was an interesting play as well. As I think Tharma is suggesting, I believe it needs careful management w.r.t. time given the expiry risk profile.

Am I right in saying that below 57.5 a drop in IV can incur more losses than you might've bargained for as well? Having said this, I do realise that typically IV tends to go up when a stock drops and, in addition, RIMM's IV is currently at least at a one-year low.

Cheers

Ravi

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

RIMM
« **Reply #24 on:** July 20, 2005, 08:36:21 AM »

You can consider slingshotting the remaining vertical credit spread if things start to get dicey.

	C	D	E	F	G	H	I	J	K	L	M	P	R	T
12		PivotK	70									PivotK	70	
13	Month	AUG							Butterfly					
14		Raw Position							Dissector				WorkSheet	
15	nC	rC	K	rP	nP	K		Bfly1	Bfly2	Bfly3	K	C	K	P
32			50			50					50		50	
33			55	20	20	55					55		55	10
34			60	(30)	(30)	60	10	10			60		60	(10)
35			65	10	10	65					65		65	
36			70			70					70		70	
37			75			75					75		75	
38			80			80					80		80	
39			85			85					85		85	
40			90			90					90		90	
41			95			95					95		95	
42			100			100					100		100	
58			Net			Net	10	10			Net		Net	

Having said that, I don't think that I would sell any 55/60 put spreads in the first place, because they are too cheap.

RIMM RESEARCH IN MOTION LTD Easy to Borrow NASDAQ Last X Net Change 8

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
72.89 C	+1.28	72.60 C	72.80 P	5 x 9	4,798,146	71.26	73.39	70.74

YIELD	PE	EPS	DIV	DIV.FREQ	DIV.DATE	52HIGH	52LOW	BETA	SHARES
0.00%	30.5	2.39	0	--	N/A	103.56	52.249	3.323	189,485,000

TRADE GRID

OPTIONS Single Exchange Composite

CALLS						PUTS			
LAST X	NET CHNG	BID X	ASK X	EXP	STRIKE	BID X	ASK X	LAST X	NET CHNG
AUG 05 (30) 100									32.39%
17.00 C	0	17.80 A	18.30 A	AUG 05	55	.05 I	.10 I	.10 P	-.05
13.50 P	+1.50	13.00 P	13.30 P	AUG 05	60	.10 A	.20 P	.20 C	-.10
8.90 P	+1.40	8.40 A	8.70 A	AUG 05	65	.50 A	.55 A	.51 B	-.29
4.70 C	+.90	4.60 C	4.70 A	AUG 05	70	1.50 I	1.60 I	1.45 A	-.65
1.95 C	+.30	1.85 B	1.95 I	AUG 05	75	3.80 A	4.00 A	3.80 A	-1.00
.75 P	+.20	.55 A	.70 A	AUG 05	80	7.50 A	7.80 A	7.50 C	-1.20
.25 I	+.05	.15 C	.30 C	AUG 05	85	12.10 C	12.50 A	13.00 C	-.10
.05 X	-.05	.05 B	.10 I	AUG 05	90	16.90 A	17.40 A	18.50 C	0

Tharma

RIMM
« **Reply #25 on:** July 20, 2005, 08:46:17 AM »

I think Tharma meant the 65/60/55 in +1/-3/+2 NOT 65/55/50 in +1/-3/+2. PJS referred to the former.

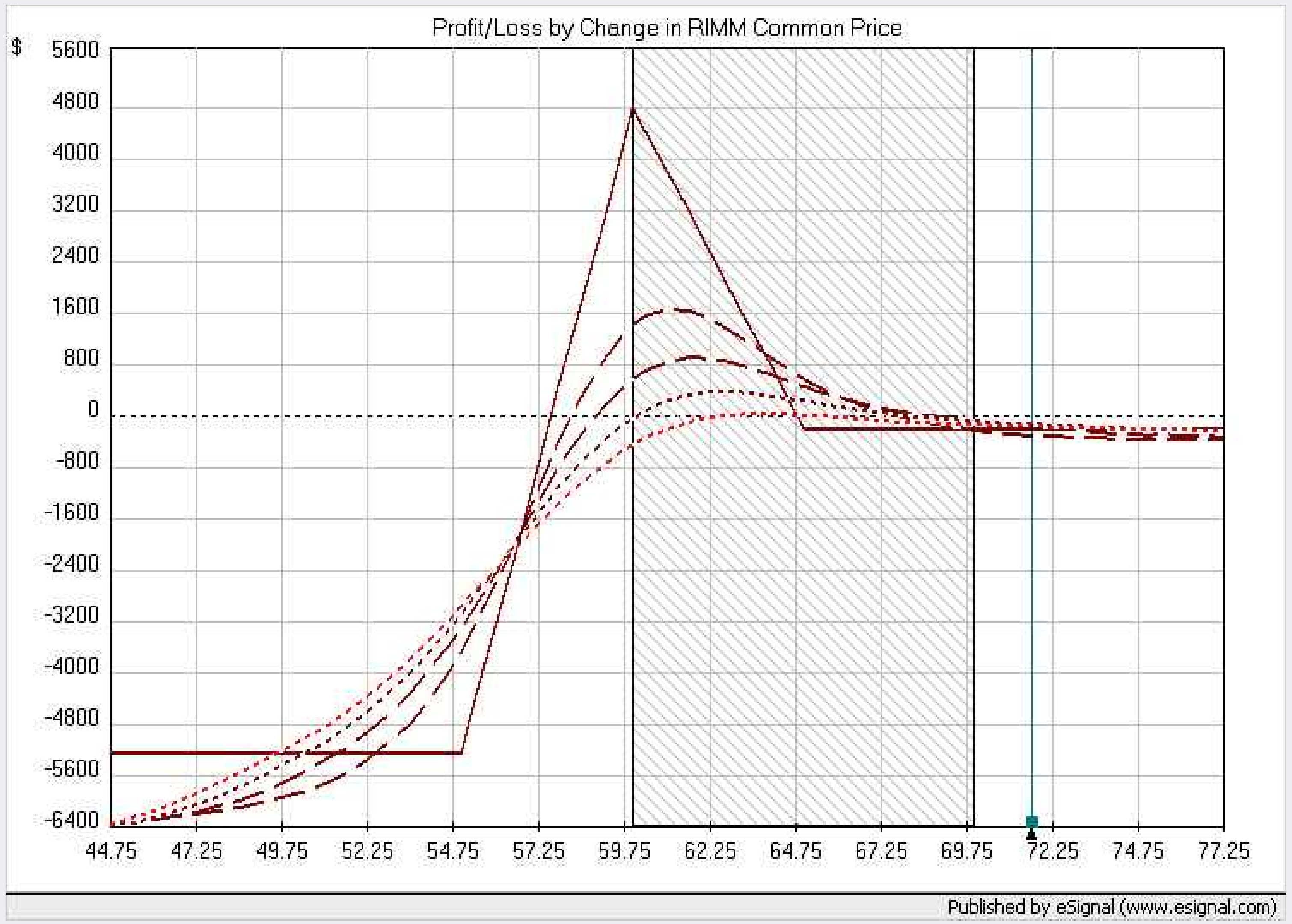
The 65/60/55 in +1/-3/+2 goes down deep below the b/even line below 57.5, hence Tharma's concern.

Ravi

Tharma

RIMM
« **Reply #26 on:** July 20, 2005, 08:50:45 AM »

Managing the BWB (Broken Wing Butterfly) is important. If price moves towards your short strike an adjustment should be made to roll it away. The trade starts off fairly neutral on the Greeks but as price moves down it becomes very Theta friendly.



Ri$k Doctor
Administrator
Hero Member

RIMM
« **Reply #27 on:** July 20, 2005, 06:20:45 PM »

Don't forget that it may be a nice profit by the time it gets to the short strike so harvesting the profits might be a good thing "CACHING"

Ri$k Doctor Forums

RI$K DOCTOR

trader5
Newbie

Bullish on SMH
« **on:** June 01, 2005, 07:27:51 AM »

I was considering what I could do with Semiconductor Holder (SMH trading at 34.81) as I am bullish and could see a move up to the 44-45 range.

I was considering an OTM put credit spread which would yield a not so great risk/reward ratio (the 30/35 put credit spread currently makes 1.05 risking 3.95), although I could exit the trade and cut my loss if the trade goes against me. I also noticed the 37.5/40/42.5 JUN butterfly could be traded for close to even money.

SMH SEMICONDUCTOR HOLDRS Hard to Borrow Vega Opra 9

STOCK

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
34.69 C	+.29	34.69 A	34.70 P	10 x 184	12,021,700	34.27	34.87	34.18

YIELD	PE	EPS	DIV	DIV.FREQ	DIV.DATE	52HIGH	52LOW	BETA	SHARES
0.01%	N/A	0	.001	Q	3/16/05	38.98	27.78	2.566	34,267,000

OPTIONS Single Exchange Composite

CALLS						PUTS			
VEGA	OPRA	BID X	ASK X	EXP	STRIKE	BID X	ASK X	VEGA	OPRA
.00	SMHFY	7.20 C	7.30 I	JUN 05	27.5	0 C	.05 I	.00	SMHRY
.00	SMHFF	4.70 I	4.80 I	JUN 05	30	0 C	.05 I	.00	SMHRF
.01	SMHFZ	2.30 I	2.40 I	JUN 05	32.5	.10 I	.15 I	.02	SMHRZ
.03	SMHFG	.45 I	.55 I	JUN 05	35	.75 I	.80 I	.03	SMHRG
.01	SMHFU	0 C	.05 I	JUN 05	37.5	2.80 B	2.85 I	.01	SMHRU
.01	SMHFH	0 C	.05 I	JUN 05	40	5.20 I	5.40 I	.00	SMHRH
.00	SMHFV	0 C	.05 I	JUN 05	42.5	7.70 I	7.90 I	.00	SMHRV

JUL 05 (44) 100 22.06%

POSITION AND ORDER ENTRY TOOLS

	DELTA	GAMMA	THETA	VEGA	P/L OPEN	P/L DAY	BP EFFECT
SMH	.00	.00	.00	.00	$0.00	$0.00	$0.00

ORDER ENTRY AND ORDER QUEUE

ORDER ENTRY ORDER QUEUE

SPREAD	SIDE	QTY	SYMBOL	SPC	EXP	STRIKE	TYPE	PRICE	ORDER	RULES	EXCHAN...
BUTTERFLY	BUY	+10	SMH	100	JUN 05	37.5	CALL	.00 LMT	LIMIT	DAY	BEST
	SELL	-20	SMH	100	JUN 05	40	CALL				
	BUY	+10	SMH	100	JUN 05	42.5	CALL				

I imagine I could take profits if the price could get to the 40 area before expiration. Note that there is dividend (.1 Q) to consider.

Ri$k Doctor
Administrator
Hero Member

Bullish on SMH
« **Reply #1 on:** June 01, 2005, 08:09:43 AM »

I think that most technicians would wait for the break out rather than get long just below the 35ish multiple top resistance area so I agree that the credit spread is unattractive at the moment.

I realize the Butterfly is worthless and if you put in a .05 bid I think the market makers would love you because the naked long 37.5 call can be had for .05. What this means is: If the market maker sold you the butterfly for .05 he can buy back the short 37.5 calls at the same price leaving him with long twice as many of the body strike against the short wing, all for free. Granted most would try to let is all go out worthless but still there are some who would love to have the free outside wing protection to enable them to short beefier premiums.

You would be better served by just buying the 37.5 calls for .05 because the commission alone on the butterfly even if you could get it for free (which you could not) works out to be between .04 and .07 each way, depending on your commission structure.

Where do you think this puppy (SMH) can go once it breaks out? That will tell us where you would be likely to get out. Then we can examine perhaps a worthwhile strategy.

The dividend is fairly insignificant to effect almost anything you would choose to do.

trader5

Bullish on SMH
« **Reply #2 on:** June 01, 2005, 09:37:57 AM »

Thanks for your response. It makes a lot of sense. Also, I think very short term strategies are not prudent here as the bullish formation is apparent on a longer term chart (break of the monthly downtrend line from back in 2000). Attempts to break this line failed in Feb and March but succeeded in the most recent month, hence I perceive the downtrend line to now act as support. A target of 44-45 area is possible 2-3 months out (with several retraces along the way).

Ri$k Doctor
Administrator

Bullish on SMH
« **Reply #3 on:** June 01, 2005, 05:07:41 PM »

In that case why not just try to grab some AUG 40C for .10 each and forget about it? The market shows .05-.15. It is simple, cheap, easy to manage. You have just discovered the only time you buy straight options -- when you have a conviction and the price is so cheap you cannot afford to pass up the opportunity. I would not go wild but if I felt strongly I would go with the whole 7%.

trader5
Newbie

Bullish on SMH
« **Reply #4 on:** June 02, 2005, 08:05:41 AM »

Ok, so there is a time to buy straight options. What you suggest makes a lot of sense considering my time frame and the low cost.

I haven??t got filled yet. I entered the trade for 40 when it was .05 x.15, now. I??ve got lots of company bidding at .10 and it is .10 - .15.

Thanks for helping me learn this.

Ri$k Doctor
Administrator

Bullish on SMH
« **Reply #5 on:** June 02, 2005, 01:16:38 PM »

The delta is .09 so they should be up .02 or .03 today theoretically with SMH up .25. They have almost no theta. Perhaps you should watch some others in the sector to see if there is a chance for the breakout and consider buying perhaps a few of the up to 27 only (same money as 40 @.10). There are over 10,000 bidding .10 with you and only about 500 offered at .15.

trader5
Newbie

Bullish on SMH
« **Reply #6 on:** June 02, 2005, 06:14:00 PM »

After considering it a while and looking at some components of SMH as you suggested, I decided to go ahead and up my bid so I am now long 27 @ .15 (as I look now, I see the .15's have all been taken and the bid/ask is now .10 x .20. SMH has now broken its most recent highs of March and Nov. and also closed near its intraday high of 35.14 (in fact it's even a few cents higher in the post-market). Thanks again for your guidance. We will see what happens.

Ri$k Doctor
Administrator
Hero Member

Bullish on SMH

« **Reply #7 on:** June 03, 2005, 07:31:20 AM »

Win or lose, you have done the right thing by acting decisively.

Now all you have to do is manage it decisively.

SMH is lower today after a breakout so it is possible that it was a fake out but this does not concern you. You are not day trading this one and you can affor to lose the whole lot and its very cheap for what you can make. The best thing to do is watch the stock price only for a while. You did not take this cheap shot to take a nickle (.05) profit or even a quarter (.25) gain.

There is a tendency to second guess yourself in trading but this cheap shot is not the normal kind of a trade you do all the time so let it do what it was designed to do.

You could have bought closer calls or bull spreads and right now they would be down more.

You could be thinking that you should have waited for the dimes (buying at .10) but guess what? They are still .10 bid for 15,000 so you couldn't have. If you couldn't get the .15s yesterday you would have felt that you missed the boat and you would have been buying them today anyway.

SYMBOL	EXCHANGE	BID	BID SIZE	ASK	ASK SIZE	LAST	LAST SIZE	VOLUME
.SMHHH	BEST	.10	8,184	.15	1,009	.15	27	0
.SMHHH&A	AMEX	.10	2,300	.15	275	.10	2	0
.SMHHH&B	BOX	.10	1,160	.15	814	.15	25	0
.SMHHH&C	CBOE	.10	2,680	.15	911	.10	21	0
.SMHHH&I	ISE	.10	8,184	.15	1,009	.15	200	0
.SMHHH&P	PSE	.10	482	.15	725	.10	20	0
.SMHHH&X	PHLX	.10	722	.15	650	.15	27	0

Also, you should be even ignoring this post. Why are you reading this?

trader5
Newbie
Posts: 25

Bullish on SMH
« **Reply #8 on:** June 03, 2005, 01:28:43 PM »

Haha, I get the point, nice way to get the message across. I'm feeling good about the trade because I'm not second-guessing myself and I'm risking very little relative to the potential reward. I could make more with a single stock transaction but I'd be worrying about the downside (been there many times). This way I know exactly what I stand to lose and could still ca$h in big if it follows through. Also, with a single stock transaction, I??d have quite a lot of dough (for me) tied up into one position ?? not something I??d personally feel comfortable with in these volatile times where a single terrorist act could strike widespread fear into the market.

Ri$k Doctor
Administrator

Bullish on SMH
« **Reply #9 on:** July 20, 2005, 07:16:21 AM »

July 19th Close: SMH closed over 37 today, if you had no position would you buy the SMH AUG 40 Calls at .15 (they closed .15-.20)?

trader5
Newbie

Bullish on SMH
« **Reply #10 on:** July 20, 2005, 07:24:33 AM »

I think I wouldn't be interested in the Aug 40 calls today as I'd be concerned with time decay. I'd more likely be interested in September which means I should adjust the position. Do you think doing a calendar spread to roll it forward is prudent. The sep's are .40 so it's going to cost me another .25 at least, therefore I think I should liquidate part of the position and roll the other part. What do you think?

Ri$k Doctor
Administrator
Hero Member

Bullish on SMH
« **Reply #11 on:** July 20, 2005, 08:55:25 AM »

SMH is a little further down right now and you can buy the SEPs at .25 outright at this moment and only sell the AUGs at .05.

SMH SEMICONDUCTOR HOLDRS Easy to Borrow Last X Net Change 5

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
36.93 C	-.57	36.92 P	36.93 P	1044 x 26	11,475,400	36.68	36.96	36.55

YIELD	PE	EPS	DIV	DIV.FREQ	DIV.DATE	52HIGH	52LOW	BETA	SHARES
0.14%	N/A	0	.013	Q	5/4/05	37.50	27.78	2.572	34,267,000

TRADE GRID

OPTIONS Single Exchange Composite

CALLS						PUTS			
LAST X	NET CHNG	BID X	ASK X	EXP	STRIKE	BID X	ASK X	LAST X	NET CHNG
AUG 05 (30) 100									19.84%
4.24 B	-.86	4.50 I	4.60 C	AUG 05	32.5	.05 I	.10 I	.05 I	0
2.10 I	-.60	2.20 I	2.30 C	AUG 05	35	.25 I	.30 I	.30 B	+.05
.60 C	-.35	.60 I	.65 C	AUG 05	37.5	1.10 I	1.20 I	1.12 B	+.27
.10 I	-.05	.05 I	.10 I	AUG 05	40	3.00 I	3.20 I	3.30 I	+.70
.05 I	0	0 C	.05 I	AUG 05	42.5	5.50 I	5.60 C	8.10 B	0
SEP 05 (58) 100									20.23%
4.50 P	0	4.60 I	4.80 I	SEP 05	32.5	.10 I	.20 I	.15 I	0
2.42 B	-.58	2.50 I	2.60 I	SEP 05	35	.45 I	.55 I	.55 I	+.15
1.00 A	-.30	.95 I	1.05 I	SEP 05	37.5	1.40 I	1.50 I	1.57 B	+.42
.24 B	-.16	.20 I	.25 I	SEP 05	40	3.10 I	3.30 I	3.39 B	+.44
.05 I	-.05	0 C	.05 I	SEP 05	42.5	5.50 I	5.60 P	0	0

You still have some time (30 days) to see if there is a pullback to the 36 area, perhaps allowing you to get the SEPs for under .20 or even a later month for a good price. As long as you are in and have good time left and as long as you have resigned to spending another .25 on some or all, you might just as well wait a week or so to see if you cannot save a bit and get the SEPs.

If you miss your chance it means you are probably making money on the AUGs. In this respect you can think of this as sort of a straddle. On one hand you want it to really rally for your AUGs and on the other you want it to break for scooping up cheap SEPs.

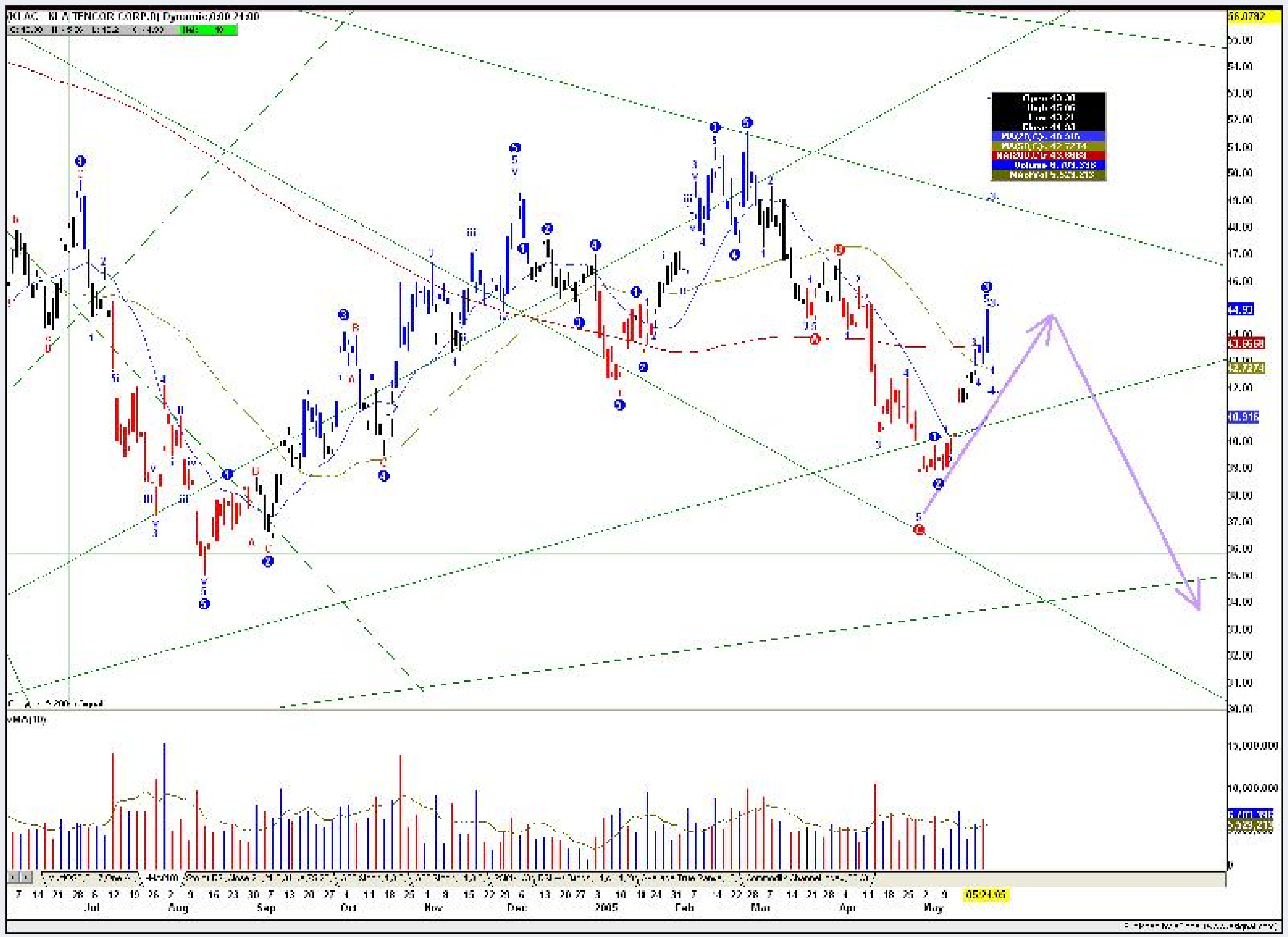
Ri$k Doctor
Administrator
Hero Member

KLAC

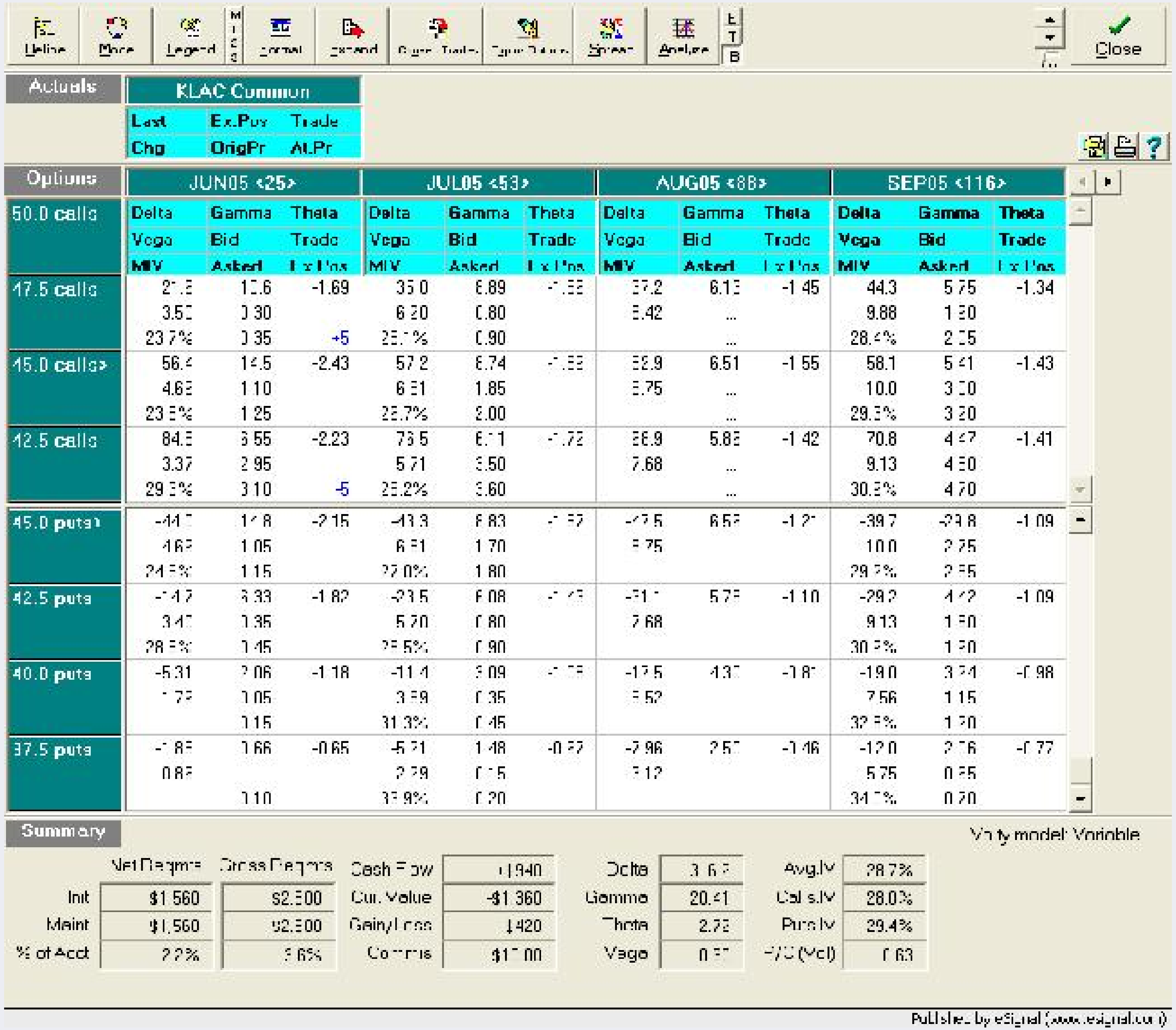
« **on:** June 03, 2005, 07:00:59 AM »

From May 24th:

The Bearish case for KLAC is weakening. Here is a daily view. The green lines of Gann Box from the original weekly chart are still visible. In the last few days KLAC has broken thru its 50d (Olive) and 200d (Red) MAs. And now it's looking like the volume spike at the Apr 29 low was a selling climax.



So, I started with a Jun 42.5/47.5 call cr spread. My notion now is to morph into a risk reversal with +300u or a backspread with +15x47.5c (or 15 of the Jul50c) to prepare for more bullish move.



From May 26th:

KLAC: The Bears are on the run. If KLAC gets above 48, the June bear spread would be in real trouble. As I said in RD3 on Wed the Jul 50c were just incase - but I could only get filled on 4. (wanted 20*.25)

From June 1st:

Ri$k Doctor: I guess you didn't want all 20 so badly.

From June 1st:

On KLAC I ended up with 10 of the Jul 50c (avg cost=.3)!

From June 2nd:

I??m concerned about my bearish outlook ?? I think it may breakout to the upside. Here is my position: 10 June 42.5/47.5 Bear spreads +10 July 50c

Ri$k Doctor
Administrator

KLAC
« **Reply #1 on:** June 03, 2005, 07:10:36 AM »

Looks like you have decided you may be wrong.

You have adjusted to a position that remains delta short and the JUN vertical bear spread is gong to lose more on the upside than the JUL calls will make for a while. That is because the JUN spread will cruise to full value quicker than a JUL vertical.

Today's down-move is going to play on your mind and make you believe that you are right about KLAC going to correct or it will say to you that there is an opportunity to take the vertical off, leaving the calls, rolling the JUN into JUL and or buying more of the JUL 50 calls.
The all important question is; (you know this) What would you do if you had nothing on? If it is nothing then get out and call it a day with your little loss.

Guest

KLAC
« **Reply #2 on:** June 03, 2005, 12:03:46 PM »

There's an old adage about catching falling daggers being dangerous to your pocket book. Well if you turn the KLAC chart upside down you have a classic example of a falling dagger. So what would I do today? Well, being the adventurous person that I am, I would put on a Bearish trade. *Except I would probably wait another day for confirmation.* KLAC is at a confluence of resistance and many indicators are showing overbot. But is it ready to fall? I'm tempted to buy more insurance while it's still cheap. **Talk about mind games.**

Ri$k Doctor
Administrator
Hero Member

KLAC
« **Reply #3 on:** June 04, 2005, 08:05:25 PM »

Wait a day and then go with flow. If lower you should think that the down-move is happening and don't insure. If up you can always over insure or get rid of the vertical.

June 15th From RD3 Class
Keep in mind that your position is behaving mostly like long 10 JUN 47.5 Puts until expiration in two days. The question is: "Would you buy the JUN 47.5 puts right now if you had no position?"

KLAC | KLA-TENCOR CORP | Easy to Borrow | NASDAQ | Gamma | Vega | 5

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
44.90 P	-.49	44.89 C	44.90 A	36 x 25	4,297,801	45.75	45.91	44.27

YIELD	PE	EPS	DIV	DIV.FREQ	DIV.DATE	52HIGH	52LOW	BETA	SHARES
1.07%	19.69	2.28	.12	Q	4/28/05	51.56	35.02	2.663	196,876,000

OPTIONS | Single | Exchange Composite

CALLS						PUTS			
GAMMA	VEGA	BID X	ASK X	EXP	STRIKE	BID X	ASK X	GAMMA	VEGA
JUN 05 (2) 100									25.91%
.02	.00	4.90 B	5.00 C	JUN 05	40	0 B	.05 C	.02	.00
.07	.00	2.40 B	2.50 C	JUN 05	42.5	0 A	.05 P	.06	.00
.38	.02	.35 I	.40 I	JUN 05	45	.45 I	.50 A	.38	.02
.06	.00	0 X	.05 I	JUN 05	47.5	2.60 B	2.65 B	.07	.00
.03	.00	0 B	.05 I	JUN 05	50	5.00 C	5.20 C	.02	.00
JUL 05 (30) 100									28.56%
.04	.03	5.20 B	5.30 I	JUL 05	40	.20 B	.25 I	.04	.02
.08	.04	3.10 B	3.20 I	JUL 05	42.5	.60 B	.65 I	.08	.04
.11	.05	1.45 I	1.55 I	JUL 05	45	1.45 I	1.55 I	.11	.05
.09	.04	.50 B	.55 I	JUL 05	47.5	3.00 C	3.10 I	.09	.04
.05	.02	.10 I	.20 I	JUL 05	50	5.10 I	5.20 P	.05	.02

13:19:41 {pjs} no I'd buy the July 45 Puts
13:22:09 {Carl_Knox} KLAC is showing weakness, out several weeks.

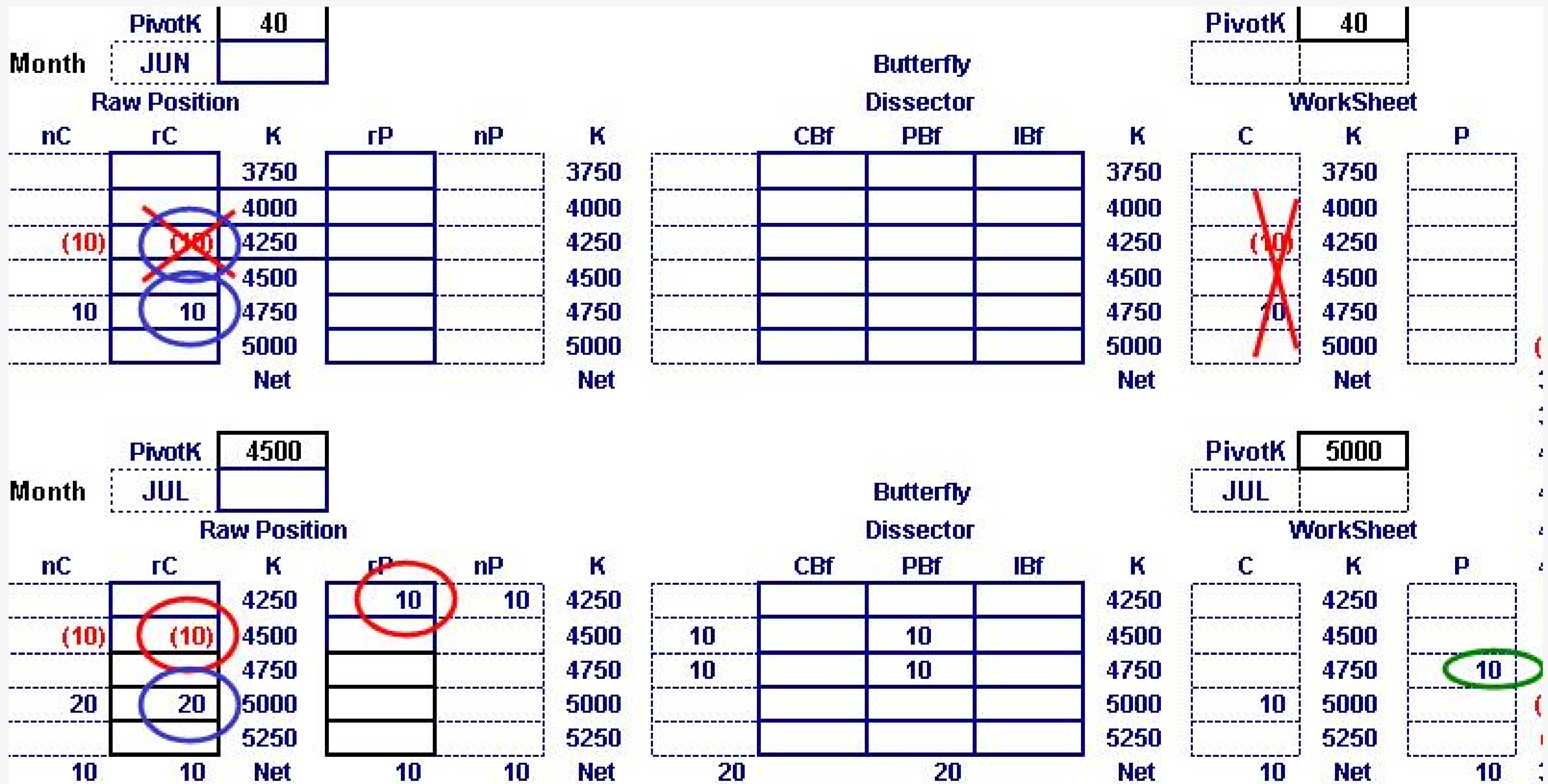
Ri$k Doctor: Yourself is telling you you need to roll it then... like now (currently rollable for 1.10ish credit... when what are you waiting for?
13:23:09 {pjs} I'll post later.

Guest

KLAC
« **Reply #4 on:** June 15, 2005, 01:33:47 PM »
Well I'm still waiting a day (or two) and still bearish on KLAC. But now I'd rather be short 10 July 45c and maybe long 10 July 42.5 puts. Will buy back the June 42.5c at the last minute.

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

KLAC
« **Reply #5 on:** June 16, 2005, 08:53:39 AM »
OK. If I understand your current position correctly(in blue circles) and your proposed trades (in red circles and Xs for liquidations) that would leave you with a single trade, selling 10 JUL 47.5 (see green oval) Puts to lock in 10 Condors (with extra call wing) for later consideration.



PivotK 40 — Month JUN — Raw Position — Butterfly Dissector — PivotK 40 — WorkSheet

nC	rC	K	rP	nP	K		CBf	PBf	IBf	K	C	K	P
		3750			3750					3750		3750	
		4000			4000					4000		4000	
(10)	(10)	4250			4250					4250	(10)	4250	
		4500			4500					4500		4500	
10	10	4750			4750					4750	10	4750	
		5000			5000					5000		5000	
		Net			Net					Net		Net	

PivotK 4500 — Month JUL — Raw Position — Butterfly Dissector — PivotK 5000 — JUL — WorkSheet

nC	rC	K	rP	nP	K		CBf	PBf	IBf	K	C	K	P
		4250	10	10	4250					4250		4250	
(10)	(10)	4500			4500	10		10		4500		4500	
		4750			4750	10		10		4750		4750	10
20	20	5000			5000					5000	10	5000	
		5250			5250					5250		5250	
10	10	Net	10	10	Net	20		20		Net	10	Net	10

Guest

KLAC
« **Reply #6 on:** June 17, 2005, 09:18:13 AM »
Not sure if I got the best deal - but decided to roll the June 42.50 short calls into July. quoted at .30/.60 was filled for .40 almost immediatley (I think I could have got more!). Anyway, plan is to buy some July 42.5 puts to complete the Syn Short making the position a 50 Straddle, which doesn't look too good. I also could roll the 20*Jul 50c down to 10*47.5c for about .30 giving me a syn put. That actually looks a little better. May wait for an uptick and buy the 45p instead of the 42.5.

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

KLAC

« **Reply #7 on:** June 17, 2005, 10:53:56 AM »

Current Position(in blue circles) and your proposed position if you buy the 42.50 Puts trade (in red circle) Leaving the 50 Staraddle as you say without a whole lot of extrinsic value but probably makes no sense based upon how you feel. What would you put on if you had no position?

PivotK 40 | Month JUN | Raw Position | Butterfly Dissector | WorkSheet PivotK 40

nC	rC	K	rP	nP	K		CBf	PBf	IBf	K	C	K	P
		3750			3750					3750		3750	
		4000			4000					4000		4000	
		4250			4250					4250		4250	
		4500			4500					4500		4500	
10	10	4750			4750					4750	10	4750	
		5000			5000					5000		5000	
10	10	Net			Net					Net	10	Net	

PivotK 4500 | Month JUL | Raw Position | Butterfly Dissector | WorkSheet PivotK 5000 JUL

nC	rC	K	rP	nP	K		CBf	PBf	IBf	K	C	K	P
	(10)	4250	10		4250					4250		4250	
(10)		4500		10	4500					4500		4500	
		4750			4750					4750		4750	
20	20	5000			5000					5000	10	5000	10
		5250			5250					5250		5250	
10	10	Net	10	10	Net					Net	10	Net	10

Guest

KLAC

« **Reply #8 on:** June 17, 2005, 11:13:19 AM »

I rolled the 20*50c to 10*47.5 calls. Now have a 5 pt Bear vertical * 10. Trying to buy 10 ea 45 & 42.50 puts. Hope to sell 10+20 of the 45 puts and buy another 10 of the 42.5 puts If KLAC heads to 43-44 and stalls. That would lock in profits using a 45 fly. I don't have a very good plan (well actually no plan) if it heads north. Geez I wish I had next weeks newspaper.

Ri$k Doctor
Administrator
Hero Member

KIAC

« **Reply #9 on:** June 20, 2005, 08:58:54 AM »

Current Position(in blue circles) and we will wait to see how the position evolves.

PivotK 4750 | Month JUL | Raw Position | Butterfly Dissector | WorkSheet PivotK 5000 JUL

nC	rC	K	rP	nP	K		CBf	PBf	IBf	K	C	K	P
	(10)	4250		(10)	4250					4250		4250	(10)
		4500			4500					4500		4500	
	10	4750		10	4750					4750		4750	10
		5000			5000					5000		5000	
		5250			5250					5250		5250	
		Net			Net					Net		Net	

Guest

KLAC

« **Reply #10 on:** June 22, 2005, 08:28:12 AM »

6/21 I bot the short puts to net a synthetic 47.5 put for 1.95 (about .10 more than a regular put). The plan to buy the 45p also (shown above) was really just another trade idea mixed in with this one. So I decided not to make it complicated and left that off.

PivotK 4750 | Month JUL | Raw Position | Butterfly Dissector | WorkSheet PivotK 5000 JUL

nC	rC	K	rP	nP	K		CBf	PBf	IBf	K	C	K	P
	(10)	4250	10		4250					4250		4250	
		4500			4500					4500		4500	
	10	4750		10	4750					4750		4750	10
		5000			5000					5000		5000	
		5250			5250					5250		5250	
		Net	10	10	Net					Net		Net	10

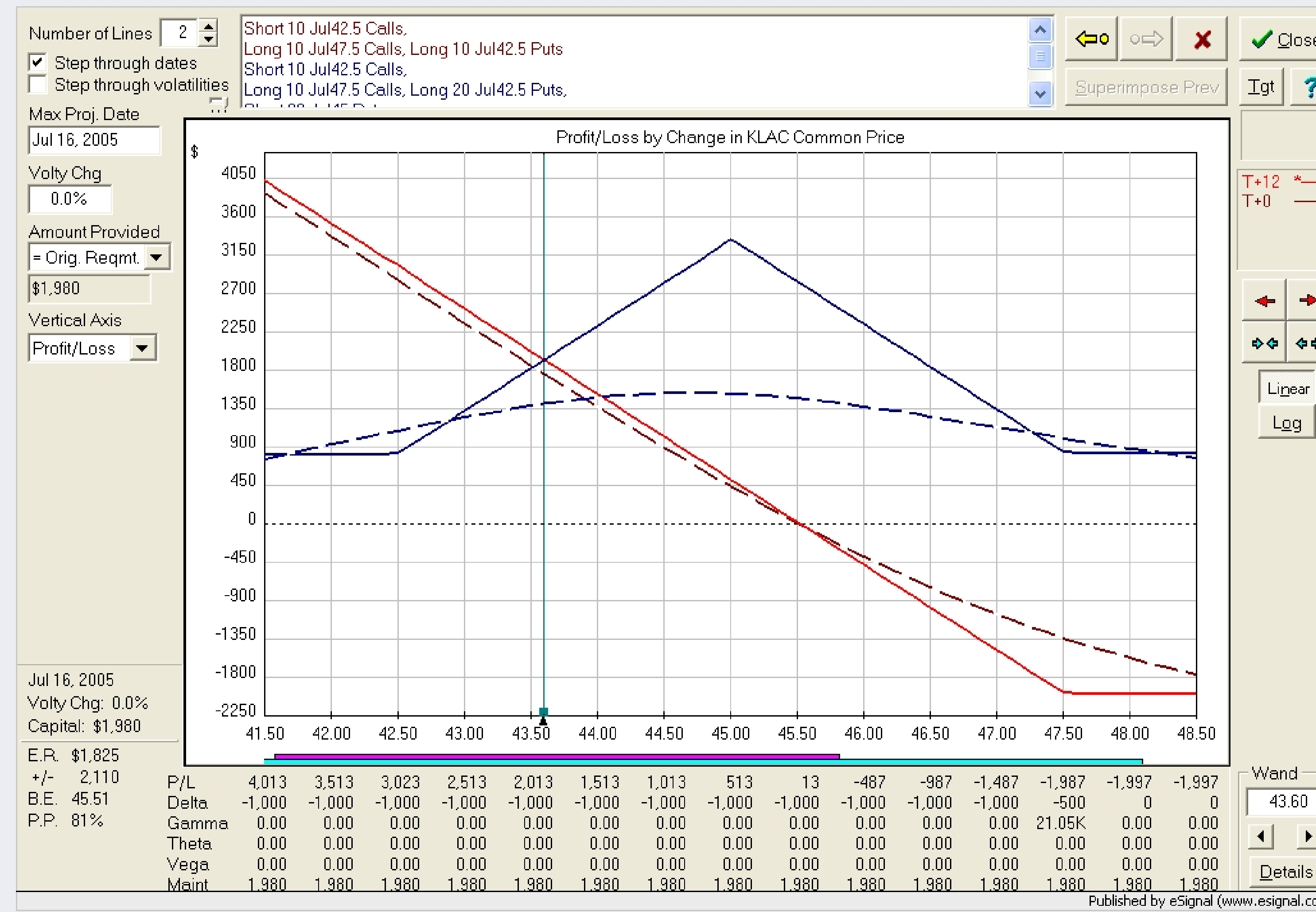
Ri$k Doctor
Administrator

KLAC
« **Reply #11 on:** July 04, 2005, 07:05:57 PM »
Is this the area that you were expecting a "stall"? What next?

Guest

KLAC
« **Reply #12 on:** July 04, 2005, 09:32:53 PM »
Here is the current chart for KLAC. I still expect it to stall at 42 +/- .50 but not sure as to when. It is a little behind my schedule - just like my wife, always late!

A look at the risk graph shows the current synthetic put overlaid onto the put adjusted to a fly. I want some more $$$ from the put before adjusting.



Ri$k Doctor
Administrator
Hero Member
Posts: 3249

KLAC
« **Reply #13 on:** July 05, 2005, 07:18:24 AM »
Can't really see how you plan to adjust into a put fly.

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

KLAC
« **Reply #15 on:** July 06, 2005, 08:56:38 AM »
OK. I don't refer to that as a ratio spread and what you will be concerned about at the time is buying some deltas. I would sell 10*45p when you are ready and then the enter the vertical.

Ri$k Doctor Forums

bajaman
Guest

If not naked then what?
« **on:** June 09, 2005, 10:36:34 AM »

I have been selling naked calls and puts to take advantage of both time premium and falling intrinsic value. I sell the puts on stocks i believe will move sideways to up and sell calls on stocks I believe that are going to move down. I know this is risky but I have not found a better strategy to capture the potential profits. I am looking for good alternatives.

Ri$k Doctor
Administrator
Hero Member

If not naked then what?
« **Reply #1 on:** June 23, 2005, 01:46:41 PM »

bajaman: It will only be a matter of time before the market tkes you prisoner and cleans out your trading account. I would develop the habbit of buying some further out protection. I know it is a waste of money but you can increase your size to make up for the lesser credit. This way when you take the occasional beeting it will only be giving back a month or two at most and not the last three years worth of income. Your margins will be more favorable as well allowing for diversification into other issues.

rlaethem
Newbie
Posts: 2

Mergers & Options
« **on:** June 03, 2005, 04:38:47 PM »

Can someone please advise me on what happens to the options contracts when a company is taken over and the stock is no longer traded.I am short 30 CZR Jun 05- 20 by 17.5 bull put credit spreads, CZR closed @ $21.68. Now I discovered that CZR is scheduled to stop trading on June 10.Any shareholders who elect not to convert to HET shares will receive a $17.75 prorated cash setlement.Will I be assigned to make a $2.25 cash settlement on my short 20.0 puts? Should I close out now and take my losses or are there alternatives? My avg credit $1.65, last ask $2.05. TIA, Bob_MI

rlaethem
Newbie

Mergers & Options
« **Reply #1 on:** June 03, 2005, 06:15:27 PM »

I Found my answers at the CBOE.The option prices will be adjusted and new options issued after CZR no longer trades. For anyone interested in the details do a search for the CZR HET merger at the cboe website.

Ri$k Doctor
Administrator
Hero Member

Mergers & Options
« **Reply #2 on:** June 09, 2005, 07:59:26 AM »

Good going rlaethem.

chibondking
Guest

New to Options: Considering this trade

« **on:** April 11, 2005, 08:00:59 PM »

Howdy-

Relatively new to options, just trying to learn what are good and not so good strategies. Consider this scenario, and in the interest of fair discloure, no, this isn't a LIVE position I am/was considering taking. Just for educational purposes:

I was modeling out what would happen if BRCM stock were to go down from 30.71 to around 29.80 or so, and wanted to experiment to see how I could try out an option play on it (I know, it's a tight range move, but it intrigues me for some reason)

So, I decided to do the following in my model:
Long 1 April 32.50 Call at 0.05
Long 1 April 30 Put at 0.30

The initial position price is .35 debit per spread. So, I assume that .35 +
commission will be my breakeven point. Let's assume the commissions to enter both total $10 (round trip). So, .45 ITM are the b/e points (29.55 and 32.95).

In the synthetics world, how could I accomplish this goal? Is this
position senseless? I guess this could be a 'Vertical Spread'?

How would synthetics come into play even?

Thanks,
C

Ri$k Doctor
Administrator
Hero Member

New to Options: Considering this trade

« **Reply #1 on:** April 13, 2005, 07:36:47 AM »The position actually is kind of senseless in that at your target price is only .20 in-the-money and it is a waste to but the 32.50 call. (note that I edited your original post to read a .35 debit per spread adjusted to .45).

You may be right about the vertical but you would need to utilize a bit more information to construct an appropriate strategy such as:

What is your timeframe?

Where do you see support and resistance?

You need the second question answered because these will be your traditional "get out" points when you have decided you are wrong. Having said this, the best positions are ones you don't need to liquidate becasue the most severe bleeding will have ceased and what will remain is something that can no longer lose much on but the position can come back and later turn to profit.

Anything synthetic should not be a concern at this point unless you have a stock position in BRCM and want to modify the risk profile to be aligned with your opinion.

chibondking

New to Options: Considering this trade
« **Reply #2 on:** April 13, 2005, 01:14:26 PM »

> **Quote** (Ri$k Doctor @ April 13 2005,09:36)
> The position actually is kind of senseless in that at your target price is only .20 in-the-money and it is a waste to but the 32.50 call. (note that I edited your original post to read a .35 debit per spread adjusted to .45).
>
> You may be right about the vertical but you would need to utilize a bit more information to construct an appropriate strategy such as:
>
> What is your timeframe?
>
> Where do you see support and resistance?
>
> You need the second question answered because these will be your traditional "get out" points when you have decided you are wrong. Having said this, the best positions are ones you don't need to liquidate becasue the most severe bleeding will have ceased and what will remain is something that can no longer lose much on but the position can come back and later turn to profit.
>
> Anything synthetic should not be a concern at this point unless you have a stock position in BRCM and want to modify the risk profile to be aligned with your opinion.

The timeframe would be until expiration, which is now this Friday I believe. S/R is:

Res1: 31/31.50
S1: 29.50 (we are getting close to that now)

I will save the synthetics for a different post after I finish reading CWS and looking at the hotcomm seminars

Basically, I want to:
a) capitalize on a narrow-ranged move (29-31)
b) during a point in time, I may be long/short the underlying stock. How can I apply options to hedge that risk?

I've been lucky with the underlying as of late, taking a .10 loss before today's tank (it's now at 29.69 roughly).

Ri$k Doctor
Administrator
Hero Member

New to Options: Considering this trade
« **Reply #3 on:** April 14, 2005, 11:02:18 AM »

That is really too short a timeframe to use options practically.

If there were a a hedge on in APR options, it would be time to roll to MAY.

We could talk about timeframe for MAY?

New to Options: Considering this trade
« **Reply #4 on:** April 18, 2005, 11:52:56 AM »

> **Quote** (Ri$k Doctor @ April 13 2005,09:36)
> ... the best positions are ones you don't need to liquidate becasue the most severe bleeding will have ceased and what will remain is something that can no longer lose much but the position can come back and later turn to profit.

If the postion has gotten this bad haven't you become a hopeful investor instead of a systematic trader? A discplined approach would be to construct a position that allows you to adjust or exit at S/R. I wonder if you could elaborate on the notion having positions you "don't need to liquidate".

chibondking

New to Options: Considering this trade
« **Reply #5 on:** April 18, 2005, 02:22:03 PM »

> **Quote** (Ri$k Doctor @ April 14 2005,13:02)
> That is really too short a timeframe to use options practically.
>
> If there were a a hedge on in APR options, it would be time to roll to MAY.
>
> We could talk about timeframe for MAY?

Sure, let's assume that it's may, and things are rolled out to May.

I appreciate the input. Time means money in options, that I understand. Is this too narrow of a move to be played?

Ri$k Doctor
Administrator
Hero Member

New to Options: Considering this trade

« **Reply #6 on:** April 19, 2005, 07:40:55 AM »

Pjs: With regard to "hopeful investor":It is hopeful but it is different than having a position that you are sweating bullets over.   I will make my point in my response to chibondking, below.

chibondking: As you can see from the following chart, the support of 29ish has been violated but in the interest of education we will just assume your new support is at 27.50.

Unrealted to the previous posts, if you thought the support lines would hold and you wanted to take advantage of shorting time premium, you could by shorting the MAY 25/27.50 put credit vertical spread, a time-on your-side spread, getting you .70ish but there is not much value currently in shorting any call credit spreads, at the moment, in order to complete an Iron Condor so you can wait on that and while you wait for a rally you might want to determine new resistance levels that when the opportunity becomes ripe, short either the 30/32.50 or the 32.50/35 if it is attractive enough. In the meantime you will have this limited risk strategy on that risks more to make less: risking 1.80ish to make only .70ish but is nothing to sweat bullets over if the size is reasonable for you. In other words, if BRCM breaks under 27, most would believe that that has broken support and would be looking to get out. But unlike a "hopeful investor" with a credit spread such as this, trading a little over 1.00 and 1.25 down at 26.25.

How many break outs turn into fake outs?

On that first dip below support, you have a chance not to get caught up in the panick and get scared out of the trade because even if it totally gets bad, you have automatic stops built in, in that this is a limited risk strategy that has a pre-determined, affordable maximum loss that you can easily brush off. The linited risk aspect affords you a patience to see if it comes back and re-violates your old support (perhaps new resistance) or not. But you can get out then because then you have more evidence with which to make an effective decision.

Scratch that last paragrph if you were planning on shorting 100 or 500 spreads because you might choose to trade it tighter to the belt and even short the delta neutral amount of stock against it in the meantime and later work out of the adjusted risk/conversion, over time. Hey but you are a pro at that size level and only need the Ri$k Doctor to share war stories with.

BRCM | BROADCOM CORP | CL A | NASDAQ | Open Interest | Volume | 6

STOCK

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
28.22 P	+.41	28.22 C	28.23 Q	1 x 28	1,697,483	28.54	28.56	28.08

OPTIONS — Single — Exchange: Composite

CALLS OPEN.INT	CALLS VOLUME	CALLS BID X	CALLS ASK X	EXP	STRIKE	PUTS BID X	PUTS ASK X	PUTS OPEN.INT	PUTS VOLUME
817	10	3.60 I	3.70 I	MAY 05	25	.35 B	.40 I	4,009	10
5,205	353	1.80 I	1.90 I	MAY 05	27.5	1.00 I	1.10 I	5,501	170
12,719	386	.70 I	.75 B	MAY 05	30	2.40 I	2.45 B	10,129	21
15,145	110	.20 C	.25 I	MAY 05	32.5	4.40 I	4.50 I	3,793	63
8,855	8	.05 C	.10 I	MAY 05	35	6.70 I	6.90 I	658	0
JUN 05 (59) 100									40.62%
0	0	6.00 I	6.10 C	JUN 05	22.5	.20 I	.25 A	0	0
55	0	3.90 I	4.00 C	JUN 05	25	.60 I	.65 C	180	0
70	59	2.25 I	2.35 I	JUN 05	27.5	1.40 I	1.45 C	0	0
122	43	1.10 C	1.15 I	JUN 05	30	2.75 C	2.80 C	16	2

POSITION ANALYSIS | ADD SIMULATED TRADES | PLOT RISK PROFILE | PROBABILITY ANALYSIS | VOLATILITY ANALYSIS

SIMULATION ANALYSIS

SIMULATION PARAMETERS — RESET PARAMETERS

VIEW	STOCK PRICE	DATE	IMP VOL	VOL MODEL	INTEREST	YIELD
POSITION W/ SIMULATIONS	28.31	4/19/05	43.11%	IMP SKEW	1.75%	0.00%

DELTA	GAMMA	THETA	VEGA	P/L OPEN	P/L DAY	BP EFFECT
42.46	-45.56	11.98	25.55	$1.70	$1.70	($800.00)

SIMULATED TRADES — CLEAR SIMULATED TRADES — SEND TRADES TO ORDER QUEUE

SPREAD	SIDE	QTY	SYMBOL	SPC	EXP	STRIKE	TYPE	PRICE	DELTA
DBL DIAG	BUY	+10	BRCM	100	JUN 05	30	CALL	.80	42.46
	BUY	+10	BRCM	100	JUN 05	27.5	PUT		
	SELL	-10	BRCM	100	MAY 05	30	CALL		
	SELL	-10	BRCM	100	MAY 05	27.5	PUT		

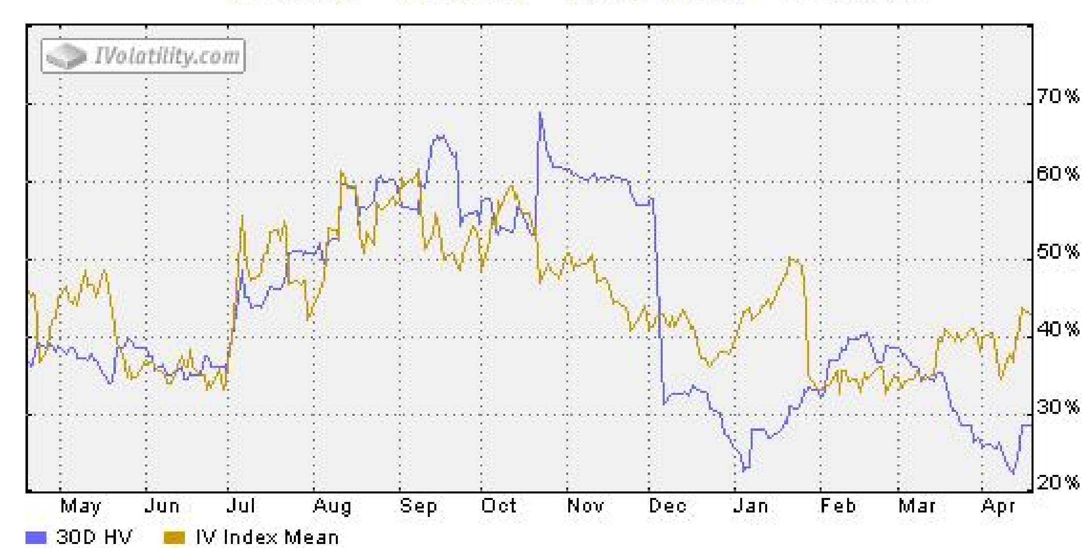
Other than that up at 28.75 (the mid point between 27.50 and 30) you could initiate the double calendar involving the purchase of the JUN 27.5P/30C Strangle and shorting the MAY at the same strikes. They are both 40ish so no edge in legging the 30 calendar now and waiting for the 27.50.

There is not much Vega risk (.02 per spread) if the IV gets slammed to historical levels in the mid 20s.

HISTORICAL VOLATILITY					
10 days	36.83%	18.71%	29.16%	93.12% - 22-Oct	15.01% - 03-Jan
20 days	28.78%	20.63%	28.82%	72.22% - 22-Oct	20.63% - 11-Apr
30 days	28.50%	22.89%	35.26%	68.94% - 22-Oct	22.35% - 12-Apr
IMPLIED VOLATILITY					
IV Index call	42.77%	37.81%	40.67%	62.26% - 08-Sep	32.16% - 25-Feb
IV Index put	43.17%	37.59%	41.32%	61.37% - 11-Aug	32.95% - 16-Feb

BRCM: DAILY 1 YEAR VOLATILITY CHART (3 months 6 months 1 year)

IV Index Call | IV Index Put | IV Index Call & Put | IV Index Mean



This is another time-on your-side spread and limited in nature so the ideas mentionesd above about being able to avoid panick and avoid being a "hopeful investor" should apply.

Guest

New to Options: Considering this trade
« **Reply #7 on:** April 19, 2005, 12:02:37 PM »

Quote (Ri$k Doctor @ April 19 2005,09:40)
But unlike a "hopeful investor" with a credit spread such as this, trading a little over 1.00 and 1.25 down at 26.25.
...
This is another time-on your-side spread and limited in nature so the ideas mentionesd above about being able to avoid panick and avoid being a "hopeful investor" should apply.

Let me see if I get the idea of having a position you don't need to liquidate.
So at 26.25 your spread would cost 1.25 or so to buy back, giving a small loss of 50 cents. Given the original RR (Reward:Risk) of .75 / 1.75, we are not *sweating bullets* like a hopeful investor (say someone who had simply sold puts). Unless we have a really big size on the built in stops of the vertical spread should allow us to be calm about waiting for the position to come back our way.

Guest

New to Options: Considering this trade
« **Reply #8 on:** April 19, 2005, 02:24:45 PM »

Ok let's say I want to sell premium. I can sell front month ATM or slightly OTM to get the most Time Premium or sell ITM options, a month or two out, to get the most Deltas. If I??m right about direction, the high delta option makes more money. But I??m probably ??sweating bullets? if it moves even a little bit the wrong way. Given that *"one size **doesn't** fit all"*, what is a better approach with a directional play?

Ri$k Doctor
Administrator
Hero Member

New to Options: Considering this trade
« **Reply #9 on:** April 20, 2005, 07:37:47 AM »

Please show me a specific trade possibility so I may address exactly what you are referring to.

Guest

New to Options: Considering this trade

« **Reply #10 on:** April 20, 2005, 08:31:06 AM »
Biotech firm AGEN (U=6.65) - waiting for an approval from FDA. The announcement on their cancer drug will be event driven meaning participants in the study have died. So the longer it takes the more effective the drug is. Originally scheduled for April it is possible to get the FDA announcement in June but more likely it will be end of summer. The stock has been weak for several months but could easily top 10 as speculation increases. So, we want some long dated calls but in the mean time why not collect some premium by selling puts. For example: Get a $1.10 on the May 7.5/5 credit spread or $3.50 on the Jun 10/5 spread. If we get a speculative bounce the higher delta of the 10s pays us better. In fact I'd probably take profits and go long some far dated 10s on bounce to make a straddle.

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

New to Options: Considering this trade
« **Reply #11 on:** April 27, 2005, 12:44:27 PM »
These are almost pure directional plays and not much a play for collecting (time decay) premium:
The 5/7.5 vertical is .85 ITM so the time premium is only .25.
The 5/10 vertical is 3.35 ITM so the time premium is only .15.

Those are reasonable directional trades if approval means only getting to 10 and where do you think it is heading if not?

New to Options: Considering this trade
« **Reply #12 on:** May 11, 2005, 01:57:17 AM »
Guest
On the downside $4-5 with an upside of $15-20. But I don't think it will happen before Aug/Sep maybe later. So the thought was to try and collect some premium now while setting up for a strangle later on. And like you said with little extrinsic value we really need a directional move.

Ri$k Doctor
Administrator
Hero Member

New to Options: Considering this trade
« **Reply #13 on:** May 11, 2005, 08:45:33 AM »

There are so many reasons to walk away from this one. I know you are itchy to play with this one but based on your opinion and the following info it is not a casino I would sit down in. I would look for a better place to park my risk.

Could go either way sooner:

Vol is on the moon and correct so any long SEP versus short JUN is too costly:

No Volume and spreads are too wide:

AGEN | ANTIGENICS INC DEL | Hard to Borrow | NASDAQ | Open Interest | Volume | 3

STOCK

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
7.018 Q	-.132	7.01 C	7.04 P	2 x 3	76,786	7.10	7.19	6.98

OPTIONS | Single | Exchange Composite

CALLS						PUTS			
OPEN.INT	VOLUME	BID X	ASK X	EXP	STRIKE	BID X	ASK X	OPEN.INT	VOLUME
MAY 05 (9) 100									96.58%
75	0	1.95 C	2.10 C	MAY 05	5	0 A	.15 C	10	0
1,037	0	.20 C	.30 C	MAY 05	7.5	.65 A	.85 A	188	0
352	0	0 A	.15 C	MAY 05	10	2.85 C	3.20 A	194	0
JUN 05 (37) 100									100.26%
1,226	0	2.00 A	2.20 C	JUN 05	5	.10 A	.25 C	1,573	0
19,151	10	.55 I	.60 I	JUN 05	7.5	1.25 C	1.40 A	9,498	0
11,077	5	.15 A	.25 C	JUN 05	10	3.20 C	3.50 A	1,543	0
SEP 05 (128) 100									98.16%
733	0	2.20 C	2.50 C	SEP 05	5	.70 X	.90 A	3,293	0
5,930	0	1.10 A	1.30 C	SEP 05	7.5	2.10 A	2.20 C	2,670	30
5,076	0	.60 X	.70 I	SEP 05	10	4.10 X	4.40 A	3,006	0

Imagine if there was a 1 to 10 reverse stock split making the stock about $70. The 7.50 strike would become the 75 strike. A .10 or .20 wide market would equate to 1.00 to 2.00 wide. Compare those adjusted bid/ask market widths to those of an ATM 75 strike option of DNA, and double the widths of the DNA markets just for fun to perhaps reflect twice its implied volatility level (still only .20 to .40 wide): Sorry there is nothing that you want to hear.

DNA | GENENTECH INC | Easy to Borrow | Open Interest | Vega | 1

STOCK

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
73.75 N	-.63	73.67 P	73.75 P	5 x 7	1,538,700	73.60	74.11	73.25

OPTIONS | Single | Exchange Composite

CALLS						PUTS			
OPEN.INT	VEGA	BID X	ASK X	EXP	STRIKE	BID X	ASK X	OPEN.INT	VEGA
MAY 05 (9) 100									45.07%
9,047	.05	1.60 B	1.70 I	MAY 05	75	2.85 I	2.95 I	3,834	.05
JUN 05 (37) 100									40.99%
14,121	.09	3.30 I	3.50 I	JUN 05	75	4.40 I	4.60 I	5,353	.09
SEP 05 (128) 100									36.42%
2,859	.17	6.10 C	6.20 I	SEP 05	75	6.60 I	6.80 I	1,631	.17

trader5
Newbie

Adjusting DIA call bear spread
« **on:** May 04, 2005, 07:32:56 AM »

I was in a DIA Jun 98/101 call bear spread with 2 contracts anticipating a move down to < 98. I exited half my position today based on the stock hitting a target area of 103.22 today. Rather than buy back 1 of the call spreads, I sold a 98/101 put vertical as the spreads were much tighter for the puts than the calls and I could therefore get a better price. Call bid/ask spreads were 30 ?? 40 cents, puts were about half of that. So now I am in 1 call bear spread and 1 box. If DIA gets as high as 103.90 today I will exit my entire position by doing the same thing and creating another box. Anything wrong with my thinking on this?

Summary:
4/27 Sell 2 98/101 call verticals for $2.20 credit
5/4/05 Sell 1 98/101 put vertical for $0.50 credit

"Locked in" loss on 1 spread to $0.30 as box will be worth $3 at expiration and my credit was $2.70

trader5
Newbie

Adjusting DIA call bear spread
« **Reply #1 on:** May 05, 2005, 07:21:28 AM »

With the big move up in the Dow, i closed out my position by selling another 98/101 put vertical for $0.40. As the box is worth $3, and my credit was $2.20 + .40 = $2.60, I have locked in a loss of $0.40 on this 1/2 of the position. Therefore, I now have 2 boxes with a net loss of $0.70 * 100 = $70. By the way, if I had shorted the stock instead of doing the bear spread, my loss would have been about $340.

Ri$k Doctor
Administrator
Hero Member

Adjusting DIA call bear spread
« **Reply #2 on:** May 09, 2005, 05:51:20 AM »

A few thoughts:
Why did you not consider the put spread in the first place when it was an OTM spread going for about .80, using the same reasoning?

Personally, I would not use an OTM Debit spread (synthetic to the ITM credit spread) with the idea that I was going to "get out" if it went against me (too many have come back). I leave getting "Scared Out" of a potential winner, out of the equation. Why? By design a limited risk OTM vertical is risking less to make more and has a built in stop loss. If .80 was too much to lose, in the first place, then modulate your size: consider perhaps a deeper (synthetically further away) 97/100 or a tighter (99/101) spread or a smaller quantity of the 98/101.

The fee for the double exercise will be $30 at some firms ($15 for each of two strikes). It is a significant amount on small sizes as compared to commissions but a very cheap great deal, relatively, on bigger sizes.

This resulting box is good practice to have the experience for when your trading size increases.

Remember that there is potential Pin Risk in June and you need to manage this all the way to expiration because only options .25 ITM will be automatically exercised/assigned.

trader5
Newbie

Adjusting DIA call bear spread
« **Reply #3 on:** May 09, 2005, 07:30:35 AM »

I obviously did not put enough thought into this trade before going in (was thinking about what I could make, not what I could lose). I did not even consider the exercise fees I would incur, and now I have to worry about pin risk. Your point about using the OTM put spread instead of the credit spread makes sense to me now. I hate the feeling of being "scared out" as I could easily see this one coming back with the market's current lack of conviction.
I think if I were to do it over, I would consider an OTM call spread. The stock price at the time of the trade was ~ 101.85. Selling a 102/105 call vertical probably would have fetched$1.35 more or less which I would keep if my anticipated direction was correct. I could have exited my position at my stops for a modest loss. What do you think if I had followed that approach?

Ri$k Doctor
Administrator
Hero Member

Adjusting DIA call bear spread
« **Reply #4 on:** May 09, 2005, 09:25:49 AM »

No, unless my resistance was at 102. I like to position with bearish credit spreads where my short option is selected based upon the resistance point. I am risking more to make less but then if it violates my point I can consider an adjustment based on the market activity.

It seems that your resistance was a lot higher because it was not until DIA was a bit beyond 103 that you exited the trade.   You were obviously bearish and therefore wanted to be in even though your resistance point was higher. The way you played it was fine but in the future you need to be comfortable with the maximum loss amount. it is OK to get out if you are no longer bearish but is is is not good to let the market scare you out.

trader5

Adjusting DIA call bear spread
« **Reply #5 on:** May 09, 2005, 10:38:52 AM »

Thanks for the response. Yes, my stop points were based on perceived resistances of 103.22 and 103.90 and I traded it as I would have had I shorted the stock, i.e. I would have exited 1/2 at 103.22 and the rest at 103.90. I understand what you're saying about doing the bearish credit spread where the short option is based on a resistance point. In this case, I could have done a 104/107 call credit spread (when the stock was 101.85) for perhaps a .45 credit but then I'd be risking 2.55 to make .45, which doesn't seem very prudent, although I could have exited with a much smaller loss provided I was following closely.

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

Adjusting DIA call bear spread
« **Reply #6 on:** May 09, 2005, 12:20:52 PM »

Right. That would not have been favorable conditions for that particular spread at that particular underlying price.

Guest

A New Paradigm
« **on:** April 12, 2005, 11:01:05 AM »

It never ceases to amaze me how with one sentence RD can create volumes of insight. This quote is taken from the final post to the JNPR analysis. Your comments are truly inspired.

> **Quote**
> The way I see it, someday in the future when you have 50 of these things on you will be able to draw from this lesson and experience and have it pay you bid dividends.

Now considering the amount of time I spend managing just one trade I haven't a clue how I will do 50 at a time. It's obvious I need a new mindset. Even thinking in terms of bid dividends (please elaborate: what is a bid dividend?) rather than just simple credit spreads is a new way of thinking.

Right now I spend time searching for setups to trade and thinking of RR (Reward vs Risk), analyzing strategies for each trade, etc. Then once I'm in the trade more analysis to get or stay profitable. Whew, I get tired just thinking about it.

I'm guessing that floor traders handle more than 50 at a time and certainly have to be aware of all these things. I'm also, surmising there is a shift we need to make in order to trade like that.

Alright gang, as Joan Rivers use to say "*Can we talk?*". Let's hear your ideas on creating a new paradigm: The Traders Mindset.

Ri$k Doctor
Administrator

A New Paradigm
« **Reply #1 on:** April 13, 2005, 08:49:39 AM »

Sorry, I meant a 50 lot spread. I don't like to have on more than 10 positions at a time. But as you experiece more consistant profits you will want to ramp up your size to benefit from the same amount of time you put in (big dividends).

Rudi_P
RD3
Newbie

A New Paradigm
« **Reply #2 on:** April 14, 2005, 07:08:15 AM »

Charles

does this mean, in money management terms that you would have about 10% of your portfolio in each position? Or do you use different parameters for deciding how much to put on for each of your 10 positions and you would hold a significant part of your portfolio in cash to compensate for the risk in the options positions?

Rudi

Ri$k Doctor

A New Paradigm
« **Reply #3 on:** April 14, 2005, 08:15:36 AM »

It is prudent money management to risk no more than 7% of you trading account on any one strategy,. keeping 50% on the side for adjustments and using the other 50% for the initial transactions. 10 plays uses to 50% and it is obvious that certain trades will require adjusting and rolling when opportunity arises.

Grading trades quantitatively and qualitatively can help in allocating capital. For example on may trade with the consciousness that some trades are Grade A, Grade B or Grade C opportunities.

Grade A Trade: Might be a personal favorite type spread that is priced exceptionally well.

Grade B Trade: Might not be a favorite kind of a spread but well priced given a strong market opinion.

Grade C Trade: Might be a desirable spread but the prices are not so favorable manifesting in a smaller size or more initial risk if put on completely at that moment. So one either begins to leg it or transacts much less than the 7% (really 3.5% of the total account) just to be in the market. If it begins to lose that means to put on more is a better price than to begin with. Some would argue that that is ??Adding to a Loser? trading which, in fact, is not good but if one saves ??bullets?? until prices are more favorable. This allows for the possibility to transact the rest, at better prices or in larger size, of what they did not complete during the initial trade.

Guest

A New Paradigm
« **Reply #4 on:** April 20, 2005, 12:29:15 PM »
So a Grade A might be a butterfly with a 5:3 RR?
Would you give an example of a type A, B etc for you.

Guest

A New Paradigm
« **Reply #5 on:** April 27, 2005, 02:07:17 AM »
Hi Pjs,

In reference to your initial text I really can relate to what I think you are talking about in developing a trader's mindset. This is something I have tried to do myself.

In my own trading I have gone through a journey of getting to now myself better and getting to know my own personal weaknesses and strengths and being honest with myself (which is somethines the hardest thing to do) about where my own strengths and weaknesses are. I think this is very important because each of us as individual traders will react to a certain trading situation differently.

In a nutshell though the professional traders really know and understand where their trading edge is in the markets and how to fully exploit this edge over time. Also when I know my edge I can prioritise my trading activities to be in alignement with my trading edge. For example, if my trading edge lies in my ability to analyse the option tables, and I am using technical analysis just to give me a broader picture of whether this stock is directional or sideways but I have not spent a lot of time analysing how my Techical Analysis is giving me a trading edge, it does not make any sense for me to be spending a lot of time on Techncial Analysis of the charts, given that I cannot really say that me spending extra time in looking at the charts is adding any real value to my trading.

So, if I may, can I ask you what do you believe is your trading edge right now? How would you define it?

Interested to hear your thoughts!

Kind regards
Tharma

Ri$k Doctor
Administrator
Hero Member

A New Paradigm
« **Reply #6 on:** May 03, 2005, 09:52:25 AM »

If you can find one Peter Stydelmeyer's first books called "Market Logic" there was a chapter in there called "You" and it is exactly what Tharma is talking about.

PJS raises the question about defining grades and showing a Risk Reward Ratio of 5:3. That is too subjective. We know that, for example, a Vertical that is risking 1 to make 4 is not necessarily better than a Vertical risking 4 to make 1. Why? The 1 to make 4 would be an out-of-the-money long shot (negative theta). The 4 to make 1 will probably win (would be already in-the-money). Even if it was going bad, a strong trader (who knows them self and folllows their self imposed rules) may manage it very well and differently than someone who has less of a conviction and is less able to coexist with various the market's conditions.

What ia Grade A for one person is different for another. Here is an over simplification. Say someone has becoming bullish on the US Dollar for quite a few months and has done nothing to date. Let also say that the US Dollar has crossed the 200 day moving average to the upside and is looking like a reverse head and shoulders bottom. Let's also say that implied volatility is the lowest it has ever been fo US Dollar Calls. And let's say that on the cover of USA Today they say that the US Dollar is going to crash if bla bla bla. And let's say that this trader's last 5 trades all made money. OK, although this might not be the best time to bet the farm, this trader has enough reasons to go full guns. To that trader, going long the US Dollar is a Grade A Trade and warrants a sizable bet by getting long cheap calls.

Bottom Line: Reasons for the Trade.
Lots of good reasons backed by experience: Higher toward Grade A.
Not so many reasons, just have a hunch. Lost tonnes of times this way: Grade E. Put a couple on for grins.

No one can define your Grades for you but you need to have a set of rules to follow and a set of tools to use when the opportunities present themselves.

trader5
Newbie

adjust 30/37.5 DHI put bull vertical
« **on:** March 18, 2005, 04:00:02 PM »

Assuming I currently have a DHI Apr 30/37.5 put bull vertical, if I wanted to close the position because I am no longer bullish, would selling the 30/37.5 call, thereby creating a box, be more or less prudent than just buying back the put vertical? I was considering the box because the open interest is higher if I do the calls, however, I was concerned with having to adjust again if the 37.5 put gets assigned. Because of the low open interest of the 37.5 puts, the 37.5 put spread is 6.70 x 7.00.

Ri$k Doctor
Administrator
Hero Member

adjust 30/37.5 DHI put bull vertical
« **Reply #1 on:** March 18, 2005, 05:19:46 PM »

There is not much of a chance for exercise of the 37.50 puts because the carry for the next 28 days at 2.25% is only .06. It is doubtful that even if a MM can cover the calls at .05 that he would exercise. The puts versus the stock in his or her inventory represents cheap outside wing protection allowing the ability to remain or become short beefier premiums elsewhere in the matrix.

DHI D R HORTON INC — Open Interest — Volume — 4

STOCK

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
30.68 N	+.40	30.66 M	30.70 T	19 x 23	833,900	30.60	30.88	30.32

YIELD	PE	EPS	DIV	DIV.FREQ	DIV.DATE	52HIGH	52LOW	BETA	SHARES
1.17%	9.425	3.255	.09	Q	1/25/05	34.575	18.473	1.204	311,789,000

APR 05 (28) 133 46.62%

338	30	4.70 I	5.00 I	APR 05	26.25	.35 A	.40 C	544	0
686	60	1.90 I	2.05 C	APR 05	30	1.20 I	1.35 I	3,043	22
1,390	7	.45 X	.55 I	APR 05	33.75	3.40 I	3.60 I	819	0
1,271	0	.05 X	.15 I	APR 05	37.5	6.70 I	7.00 I	25	0

SPREAD	SIDE	QTY	SYMBOL	SPC	EXP	STRIKE	TYPE	PRICE	DELTA
VERTICAL	SELL	-10	DHI	133/133	APR 05	30	CALL	1.85	-706.42
	BUY	+10	DHI	133/133	APR 05	37.5	CALL		
VERTICAL	BUY	+10	DHI	133/133	APR 05	37.5	PUT	5.60	-755.08
	SELL	-10	DHI	133/133	APR 05	30	PUT		

The box is fairly priced but the call spread components have tighter bid an ask prices with a probable fill price of 1.85 selling 1.95s and buying .10s) in this thinly traded issue. That implies a put spread of about 5.65 which you could probably get (buying 6.90s and selling 1.25s). It seems that although the put spread is .45 wide versus .25 wide for the call spread, prices are skewed toward letting you out at the moment.

trader5
Newbie

adjust 30/37.5 DHI put bull vertical
« **Reply #2 on:** March 30, 2005, 07:52:18 AM »

I was able to purchase the 33.75 calls for only slightly more than the 37.5 calls so I did a 30/33.75 call bear spread with the thinking that it would lock up my loss potential and actually have a shot at making money if the stock took off. However, today I was assigned on the 37.5 puts, leaving me with a long 266 shares of underlying (the options are 1.33 after the split*) along with the 30/33.75 call bear spread and a 30 long put. The stock is currently 28.88. I am bearish on the housing stocks right now, so I am considering selling the +2 u this morning and holding onto the rest of the position for now. What do you think?

*There was a 4:3 split a couple weeks back so each option represent 133 shares, is what I meant. Sorry about that, was rushing to get that out before leaving in the A.M., so I realize I didn't make that clear.
I decided to sell the 266 shares of DHI for 29.15 from being assigned on the 37.5 short puts which left me synthetically short DHI and long a 33.75 call.
My raw position is now:

Short APR 30 c (.70)
Long APR 30 p (1.55)
Long APR 33.75 c (.075)

2 contracts of each

This agrees with my bearish stance on DHI at the moment. Thanks for your reply.

Trader5

Ri$k Doctor: What is the remaining value in the 30 calls? Are they worth holding synthetically when you ar bearish? Are they worth being long against something lower for a bear spread? Is capital a problem? Should you try to do the reversal for even money? MMs like to do conversions for even money.

The 30 calls are .65 x .75. I think that is still too much extrinsic value for me to buy them back unless I do it for the purpose of entering into a bear spread. As for the bear spread, the APR 26.25 call is 3.10 which means the bear spread fair value is a credit of approx 2.40 with a max loss of 1.35, not a bad ratio. The bear spread would cost me an extra .65 as I would have to buy twice as many of the 30's to eliminate my short call. So my credit is actually more like 1.85 with a max loss of 1.90, still not bad. It would also leave me with the long 30 put. Capital isn't a big problem, although that is relative. Hmm, reversal. That means +c, -p, -u.
Since I'm currently effectively short the underlying by being short the 30 calls and long the 30 puts, I could buy the 30 calls for .70 and short the 30 puts for 1.60 to enter into the reversal for a credit of .90. That is equal to the approx. amount I am in the money based on the current stock price of 29.03. However, since I am bearish, I do not think I'd want to flatten my position now, right? Please let me know if I'm off base anywhere here.
Take care.
Trader5

Ri$k Doctor: Seems that you are out of the shares. That means that that the 30 combo is like short stock. Against the 33.75Cs that makes it all long the 33.75P synthetically, which have appreciated beyond the price that you would by them for as a position initiation. Rather than sell the real 33.75Ps and being assigned shortly, just buy the stock (one tiny edge and one commission) to lock in the 30 strike conversion and hold it until expiration. Then pick a point to do the 26.25/30 bear spread. You could buy the 26.25Cs to lock in the 33.75Ps leaving you with a synthetic strangle to later do the +2*30P/-4*26.25P ratio spread but the negative edge in the 26.25 combo embedded is a waste of money.

I see - I need to remember what you say, which in this case is, "would I buy the 33.75 puts now if I was flat." At 4.45, and based on the current stock price and the delta of -.94, there isn't much reward left, hence I can buy the stock to neutralize the position, effectively going flat and then I can focus on a new trade (the bear spread). If DHI rallies, I am okay, because I am locked in with conversion and the worst that can happen is my 33.75 calls rise in value. Makes sense.   Honestly, I don't follow your last sentence about the synthetic strangle - I will read that again and ponder it some more later when I get a chance. Thanks, Charles.

Ri$k Doctor: Get back to me once you understand how the 26.25C and the Synthetic 33.75P form the synthetic 26.25P/33.75C strangle.

Ok. Is there any problem if I do the bear spread first now and then buy the shares later? DHI is up near resistance at 30 so I can get a good credit on the call bear spread, and then I anticipate I can get a better price on the shares later on, perhaps in the next couple of days, after window dressing has ended. What do you think?

A few minutes later:

Sorry, if that was a stupid question, I can't see any problem with doing that as long as I'm able to stay on top of it and be ready to adjust if my outlook changes. In doing the bear spread first, I'd be -2 the 26.25 c and +2 the 30p, so the 30 put would be protecting me against the short call. Then by buying the shares later, I'd effectively just be in the bear spread, because the +u along with the + 30p would be equivalent to a + 30c, hence the bear spread. I'm sorry for jumping the gun and asking too many questions. I should've pulled the trigger and did the bear spread when I had a chance to at 2.80, stock is now down to 29.37. Oh well. It's starting to click a bit. Thanks again.

Ri$k Doctor
Administrator
Hero Member

adjust 30/37.5 DHI put bull vertical
« **Reply #3 on:** April 27, 2005, 12:42:22 PM »

March 30:
Ri$k Doctor: Beat to have these sorts of challenges early, while still learning with small trades. 90% of your income is still out there to make.

Guest

Sweet Spot
« **on:** March 15, 2005, 11:01:12 PM »

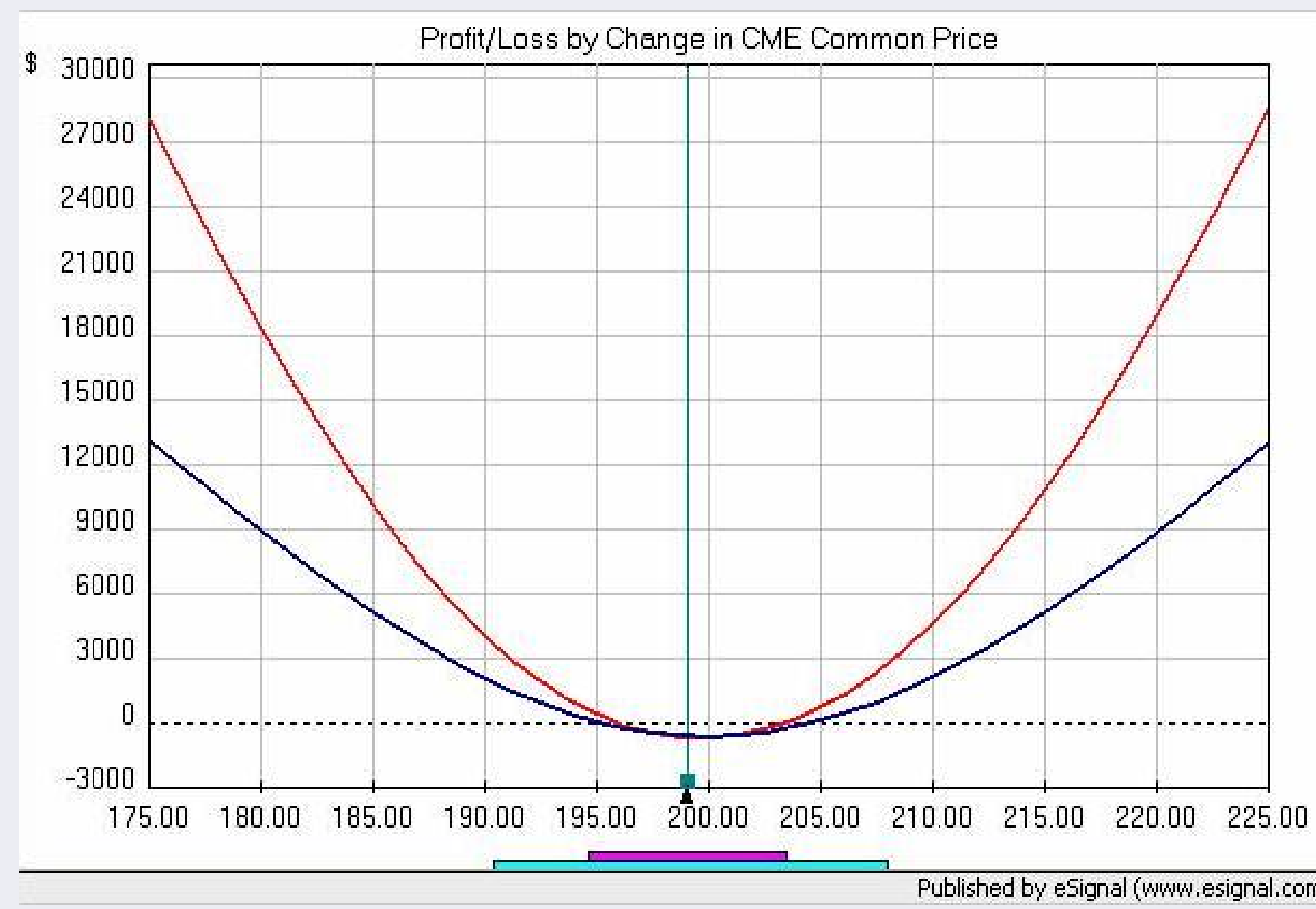
Here is a 210 CME Apr call. The risk curve is 1 day = today. In this example, if CME falls 10% the option loses $3.50. BUT, if CME goes up 10% the option gains $10. **As the underlying price moves ITM, the option price increases more rapidly**. **As ithe underlying moves further OTM, the option price decreases much more slowly** as gamma approaches zero. The result of a slightly OTM option is a better Reward to Risk (RR) ratio. This would suggest a Strangle play as potential better RR. I built a spread sheet to calculate the RR of various strikes and seems like 10% OTM is usually best. Just wondering if this sweet spot idea had any merit.

The relationship is really magnified if we look at the front month.

Below I compare the March CME

210/190 Strangle (25*497 = $12,425) in red .

vs. 200 Straddle (10*1242 = $12,420) in blue



The OTM options gain faster. The downside is Theta. The Strangle will lose premium faster. i.e. Higher gamma means more negative theta.

Ri$k Doctor
Administrator
Hero Member

Sweet Spot
« **Reply #1 on:** March 18, 2005, 01:43:01 PM »

First Image:
Gamma is gratest ATM (mathematically just below the strike). What is happening is more about deltas (rate of change of the option's price) because the gamma (rate of change of the delta) is actually decreasing up and down away from the strike.

To the upside:
The delta, getting longer to the upside, causes the call to profit more and more with each uptick until it is moving 1 for 1 (1oo deltas) with the stock.

To the downside:
The delta, getting less long to the downside, causes the call to lose less and less with each downtick until it is worthless (0 deltas).

When the delta is Zero or 100, it is not changing any longer (until the underlying comes back closer to the strike) meaning that there is no rate of change of the rate of change (gamma).

Second Image:
Up or down 10% the strangle increases in gamma while the straddle decreases in gamma. This is simply because the underlying is moving toward 25 options (in the strangle) ATM (highest gamma) and away from the straddle strike.

Ri$k Doctor

EBAY Diagonals

« **on:** March 15, 2005, 12:38:57 PM »

FEB 02, 2005:

EBAY | EBAY INC | NASDAQ | Net Change | Gamma | 6

STOCK

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
81.43 C	+1.39	81.42 Q	81.44 Q	2 x 3	19,349,769	80.70	82.47	79.87

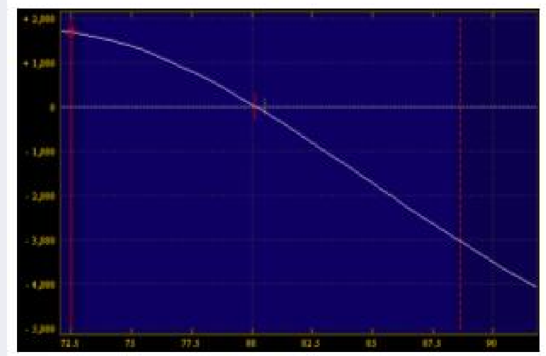
OPTIONS | Single | Exchange Composite

CALLS NET CHNG	GAMMA	BID X	ASK X	EXP	STRIKE	PUTS BID X	ASK X	NET CHNG	GAMMA
FEB 05 (23) 100									37.61%
+1.40	.02	11.70 I	11.90 I	FEB 05	70	.30 B	.35 I	-.20	.02
+1.00	.03	7.40 B	7.50 C	FEB 05	75	.90 B	.95 I	-.50	.03
+.40	.05	3.90 I	4.00 I	FEB 05	80	2.35 I	2.45 I	-.70	.05
0	.05	1.70 I	1.75 I	FEB 05	85	5.10 I	5.30 I	-1.20	.05
+.10	.03	.65 I	.70 I	FEB 05	90	9.10 X	9.20 B	-1.50	.03
0	.02	.25 I	.30 C	FEB 05	95	13.70 I	13.80 C	-2.20	.02
MAR 05 (51) 100									38.61%
+1.10	.02	12.60 I	12.80 C	MAR 05	70	1.00 I	1.10 I	-.45	.02
+1.40	.03	8.70 I	8.90 I	MAR 05	75	2.05 I	2.15 I	-.85	.03
+.40	.03	5.50 I	5.70 I	MAR 05	80	3.80 I	4.00 I	-1.00	.03
0	.03	3.20 I	3.30 I	MAR 05	85	6.50 I	6.70 I	-1.30	.03
+.25	.03	1.75 I	1.85 I	MAR 05	90	10.00 I	10.20 I	-.40	.03
+.15	.02	.90 I	1.00 I	MAR 05	95	14.20 I	14.40 I	0	.02
APR 05 (79) 100									38.71%
+1.50	.02	13.50 I	13.70 I	APR 05	70	1.75 B	1.80 I	-.65	.02
+.90	.02	9.80 I	10.00 I	APR 05	75	2.95 I	3.10 I	-.97	.02
+.60	.03	6.70 I	6.90 I	APR 05	80	4.90 C	5.00 I	-1.00	.03
+.40	.03	4.30 I	4.50 I	APR 05	85	7.50 C	7.70 I	-1.20	.03

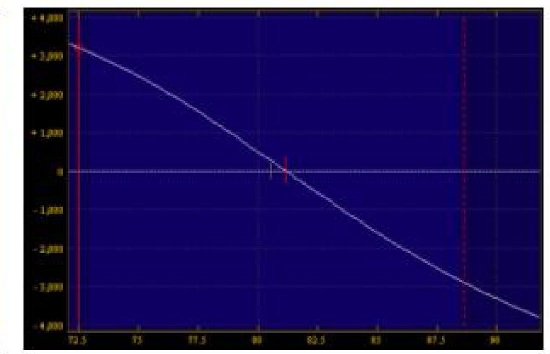
13:06:03 {Carl_Knox} Bear Diagonal Vertical 85/75 Put -- Target to it's lows of July and August of around 72.80 no but I'd do a Calendar of the spread, because I expect it to take another drop but I just can't pick a month, Sell the near month, buy 6 months out, maybe.

Ri$k Doctor: Shorter dated Diagonals cost less and would do better if you were correct.

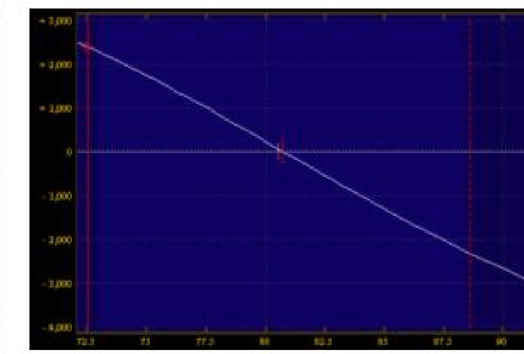
Here is the FEB/JUL for 8.70



Here is the FEB/MAR for 5.70



Here is the MAR / APR for 5.50



We pulled up two possibilities:

The ShortFEB75P/LongMAR85P Diagonal for about 5.70.
and
The ShortMAR75P/LongAPR85P Diagonal for about 5.50.

DIAGONAL	BUY	+10	EBAY	100	MAR 05	85	PUT	5.70	-403.98
	SELL	-10	EBAY	100	FEB 05	75	PUT		
DIAGONAL	BUY	+10	EBAY	100	APR 05	85	PUT	5.50	-301.53
	SELL	-10	EBAY	100	MAR 05	75	PUT		

February 17th: EBAY Splits:

EBAY Split 2 for 1 so our strikes get chopped in half and our positions double in size.

Carl's adjusted target is 36.40 and EBAY got within a buck of his target. Is this a Coulda Woulda Shoulda or will it come back down? We looked at two diagonals the APR 85 Puts versus the FEB 75 Puts and also the MAR 75 Puts. The 85s are now the 42.5s and the 75s are now the 37.5s. We can roll the FEB 37.5s for perhaps .20 or so but I am inclined to just stay long the 42.5s and wait for a dip. For that matter and because of the consciousness that it is not worth being short the MAR, it is worth buying the MAR back for .25 or .30.

EBAY | EBAY INC | NASDAQ | High | Low | 4

STOCK

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
42.37 P	-.35	42.37 P	42.38 A	21 x 5	6,399,152	42.79	42.84	42.36

OPTIONS | Single | Exchange Composite

CALLS HIGH	LOW	BID X	ASK X	EXP	STRIKE	PUTS BID X	ASK X	HIGH	LOW
FEB 05 (0) 100									21.73%
5.40	5.00	4.80 I	4.90 I	FEB 05	37.5	0 I	.05 C	0	0
2.85	2.45	2.35 I	2.40 I	FEB 05	40	0 I	.05 I	0	0
.45	.15	.15 C	.20 I	FEB 05	42.5	.20 I	.25 I	.25	.10
0	0	0 I	.05 C	FEB 05	45	2.60 I	2.65 I	2.53	2.20
MAR 05 (28) 100									33.08%
5.50	5.20	5.20 B	5.30 I	MAR 05	37.5	.20 I	.30 I	.25	.20
3.50	3.20	3.10 I	3.20 I	MAR 05	40	.65 I	.70 I	.70	.60
1.90	1.55	1.55 I	1.60 I	MAR 05	42.5	1.55 I	1.65 I	1.65	1.45
.90	.65	.65 C	.70 I	MAR 05	45	3.10 I	3.30 I	3.20	2.90
APR 05 (56) 100									36.81%
6.10	5.90	5.70 I	5.80 I	APR 05	37.5	.70 B	.75 I	.70	.70
4.30	4.00	3.90 I	4.00 I	APR 05	40	1.35 I	1.40 C	1.35	1.25
2.80	2.50	2.50 C	2.55 I	APR 05	42.5	2.40 I	2.45 P	2.40	2.25
1.70	1.45	1.45 I	1.50 I	APR 05	45	3.80 I	4.00 I	3.80	3.60

Admin

Options: Perception and Deception Review

« **on:** March 02, 2005, 03:04:30 PM »

Review By Global Investor Bookshop

Options: Perception and Deception

Position Dissection, Risk Analysis and Defence Trading Strategies

by Charles Cottle

ISBN: 1577389071

386 pages,Published byIrwin, 1996 Out Of Print

Description of Options: Perception and Deception

Destined to become a classic of trading literature, the book demonstrates how perception of risk is the key element to successful options trading. In easy-to-understand, down-to-earth language, Cottle shows traders how to calculate the risk on any option position, from simple puts and calls to sophisticated straddles and butterflies instantly.

Although most options positions contain layers of risk that can lead to huge losses, Cottle explains how to eliminate inappropriate risks, adjust positions as the underlying market changes, and optimise the potential of the option positions. No other book so effectively merges option theory with actual market experience.

Contents of Options: Perception and Deception

1. Introduction to Position Dissection Using Synthetics
2. Greeks
3. Pseudoarbitrage for Professionals
4. Strangles and Straddles
5. Dissection to Dodge Destruction
6. Verticals
7. Wingspreads
8. Multiple Expirarion Spreads
9. Risk Reversals/Risk Conversions
10. You Can Live with or without Skew

Reviews of Options: Perception and Deception

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

Thomas R. Preston, Derivatives Trader, TYFA Trading Group

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

Olaf Pilz, West Deutsche Landesbank, Dusseldorf