Ri$k Doctor Forums

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Ri$k Doctor

(OptionVue User Group (OVUG) 021310 Documentation

« **on:** February 17, 2010, 03:43:18 PM »

The Video is at the Free Area of RiskDoctor Archives at Vimeo.com

MCTradesB.pdf

RDCC_Outline_020410b.pdf

RDCC_Outline_021110.pdf

biovirus

Black-Sholes in many programming languages and a simple mnemonic!

« **on:** December 30, 2009, 02:06:56 AM »

If this is something everybody knows I sincerely apologize for wasting time-space.
I was looking for a long time for a simple way to estimate a call/put price in my mind and finally found a very satisfying formula mnemonic (formula):

The ATMF (ATM Forward) option with short expiration time can be priced (It can be done both by ratios and percentages):
Call = Put = 40% of Price * volatility % * SQRROOT of Time in years.
Or C=P = Price * 0.4 * volatility (as a part of 1, like 0.25) * Sqrt(years)

I found that on a site: **http://www.espenhaug.com/black_scholes.html**

The site mainly lists the code for the Black-Sholes in huge nuber of different programming languages including:Excel, Objective-C/iPhone, F#, Autoit, Fortress, Lua, APL, SAS, Mathcad, J, MEL, Postscript, VB.NET, Clean, Ruby, Lisp, Prolog, PL/SQL, LyME, ColdFusion, K, C#, HP48, Transact SQL, O'Caml, Rebol, Real Basic, Icon, Squeak, Haskell, JAVA , JavaScript, VBA, C++, Perl, Maple, Mathematica, Matlab, S-Plus, IDL, Pascal, Python, Fortran, Scheme, PHP, GNU, gnuplot

Alex Chaihorsky

biovirus

Re: Black-Sholes in many programming languages and a simple mnemonic!

« **Reply #1 on:** January 03, 2010, 02:10:42 AM »

Just to add more mnemonic-like rules to the above formula:

The volatility is easy - say .25 will be 1/4, around 33% - 1/3 and 50% - 1/2. These numbers compiled with 40% (0.4) will yield 10%, 15% (approx) and 20% of the underlying price. Square roots of year's ratios are a little but tricky to deal with in your mind fast, so here are some approximate multipliers:

For 1 year square root is 1;
For 9 months the sq.root approx = 0.9
For 6 months - 0.7
For 3 months - 0.5
For 2 months - 0.4
For 1 month - 0.3
For 2 weeks 0.2
For 1 week - 0.15
For 3 days - 0.1
For 1 day - 0.05

One can calculate the approx % table (40% by volatility % by Time %):

Vol		25%	33%	50%
Months	12	10.	15	20
	9	9	12	18
	6	7	9	14
	3	5	6	10
	2	4	5	8
	1	3	4	6
Weeks	2	2	3	4
	1	1.5	2	3
Days	3	0.8	1	1.5
	1	0.5	0.7	1

And then just apply it to any underlying price, for example for the $35 stock medium volatility 2 months expiration the option price will be approx 5% of $35, i,e half of its 1/10 price or$1.75
I just have this table on the back of my iPhone... 😐

Alex Chaihorsky.

Ri$k Doctor

Re: Black-Sholes in many programming languages and a simple mnemonic!
« **Reply #2 on:** January 08, 2010, 07:57:21 AM »

Very Cool Alex. I like it. This is very useful fot the mental database I encourage traders to have when thinking about values of calendar spreads. If you have the inclination, please add a column for 1 month (people can add short dated calendars to longer dated calendars to get wider calendar values) calendars and if you want to email me the spreadsheet I will save you the time of typing the data in the forum as the spacing becomes a challenge.

csrote

Re: Black-Sholes in many programming languages and a simple mnemonic!
« **Reply #3 on:** January 12, 2010, 09:33:24 PM »

Thanks Alex and Charles. This is really neat!

I will really appreciate seeing it in a spreadsheet so all the columns line up.

Am a bit confused on how to use the Months, Weeks and Days sections. Could you please show the components of the example stock computation with a bit more detail?

Thank you,
//Cliff

BTW, Alex, you could attach a spreadsheet verison. Notice "Additional Options" link in lower left corner of message screen.

Gery

Zeta or Vega = IV or HV
« **on:** December 13, 2009, 12:10:16 PM »

Hi there,

I have been struggling with the concept of Vega. For some time I tought it is referring to IV, but then I bought a book and found out that Vega was for HV, at least the author claimed. So I decided to find out myself and did some research on the internet.

I have found the following script about it:

""VEGA and ZETA: these two indicators measure the change in an options value relative to changes in Volatility. VEGA measure the effect of changes in Historical Volatility, and ZETA measure the effect of changes in Implied Volatility. In both cases, higher volatility means higher options premiums, and therefore potentially more profit; it also means more risk!

Historical Volatility (measured by VEGA) is a statistical measure of how volatile the stock has been in recent history. Options with high Vega have experienced high volatility, and therefore could change price rapidly as the stock price changes. High Vega options are more expensive; low Vega options are cheaper. VEGA is derived from underlying stock price movement.

Implied Volatility (measured by ZETA) is a measure of the theoretical current value of an option. Using historical volatility, Theta, stock price, option premium and a few other factors, and theoretical value for Zeta is calculated. Zeta is derived primarily from market premium of the option itself.

When Vega and Zeta are positive, increased volatility is helping an option position by increasing its value; when they are negative, increased volatility is hurting the option position (if you are buying calls and puts).
When Zeta is higher than Vega (i.e. Implied Volatility is higher than Historical Volatility), options prices could be overvalued, and this is a good time to Sell Options.
When Vega is higher than Zeta, options prices could be undervalued, which may be a good time to Buy Options. NOTE: it does not always follow that undervalued options will suddenly increase in value; they may stay undervalued for their whole life span!).""

Source: **http://www.swing-trading-options.com/optiongreeks.html**

Anyway the book that first met with Zeta was from Guy Cohen and Options made easy.

What do you guys think?

Gery

Ri$k Doctor

Re: Zeta or Vega = IV or HV
« **Reply #1 on:** December 13, 2009, 12:59:24 PM »

That is news to me. Never heard of Zeta. Let's say that this is true. I would disagree that the option is a 'Sell' when Zeta is greater than Vega because the trend might be up and the market extremely volatile. You cannot arb Zeta against Vega because if Zeta (as these folks claim) is a 'Sell", then how do you buy Vegas (Historical Volatility non-options?), the 'Buy' to lock in the difference?

Can you find the first time (or nearly what date) the term was first defined? There are a lot of Hybrig Greeks that people have invented like $Delta, Lambda and Iota, etc. Most of them are for Market Maker inventory management and have very little application for retail investors.

Gery

Re: Zeta or Vega = IV or HV
« **Reply #2 on:** December 19, 2009, 10:41:54 AM »

I have seen this term being defined in Guy Cohen's book "Options made easy".
Is this completely wrong? I mean is Vega really reflecting the 1% move of IV and not HV?

Gery

Re: Zeta or Vega = IV or HV

« **Reply #3 on:** December 20, 2009, 01:51:25 PM »

I have found some more stuff. Charles, could you please review them and share your opinion it?

The formula for Vega directly relates to the stock closing price volatility: S[vt] N1(d1) where S is the stock price.
For more about Zeta, read this article: **http://www.derivativesstrategy.com/magazine/archive/2000/0200col.asp**. As you can see, it differentiates between Zeta and Vega.

thx

biovirus

Re: Zeta or Vega = IV or HV

« **Reply #4 on:** December 30, 2009, 01:48:22 PM »

I always find it simply annoying when different authors discuss mathematially precise things without any regard to actual math.
Math is not scary and it is not difficult, it is simply funny how conteporary culture is so afraid of it that even mention of math makes people run away like they save themselves from the plague!

Vega by Black-Sholes DEFINITION is dC/dSigma (run, run! Save yourselves!) where C(P) is a call(put) price and I write the whole word "Sigma" for greek letter sigma, which is defined as VOLAILITY. This is the same type of relationship as DELTA, which is dC/dS, where S is the price of stock and is "change in the price of a call with respect of a change is the price of the stock" and which everybody learn first. So Vega, equally simply, means "a change in the price of call (put) in relation to change in volatiliy". Volatility, in its turn is also unequivocally defined as a STANDARD DEVIATION (yearly) of underlying price, so the final version is VEGA indicates how the price of a call or put changes in respect of the annualized standard deviation of the stock price".
It is not very important if you remember what standard deviation is or not at this point, what is IMPORTANT is that it has NOTHING IMPLIED! Its all historic and "after the fact".
So, I humbly would like to ask all these authors including Investopedia why they talk about implied volatility when they discuss VEGA???!!!

BUT....!!!!

The BS formula does not OBLIGATE a market maker (or you) to buy/sell an option at the certain price! Market exists INDEPENDANTLY from mathematical models and that mean that the real price of an option can be anything that both parties agree upon. So let us say a MM sold you an option for X dollars. We can plug all the nessesary numbers into BS and to our surprise we will see that the price suggested by BS may not at all be the same as MM and you agreed upon. How do we interpret such an abomination? If you look at all the components of BS formula you will see that some of them are factual in nature like stock price and strike and some are statisticalin nature. Statistical means that they describe certain value in its probable state, calculated from its past, rather than measured directly NOW! Ad that we can assign the discrepancies between the BS prica and the actual price right there! It means that neither Market Maker no you BELIEVED that current sigma (i.e. annualised\, averaged, standard deviation or variance of the price) is going to be approximately the same for the future and we both agreed to consider it higher or lower! Now all other variables being same we can actually CALCULATE how different the IMPLIED SIGMA is!
That SIGMA, calculated from EXISTING, REAL, bought/sold option is that infamous IMPLIED VOLATILITY. It is calculated not from prices of stock, but reversely, from a completely different source - the PRICE OF OPTION!

So, my question is this - if we think of VEGA or ZETA or any other indicator as a change in option price in respect of change in implied volatility OF THAT SAME STOCK, i.e. dC/d(IV), do not we have a cyclicl logic? To measure IV we have to HAVE ALREADY the price of an option and with that IV we are going to estimate... that same price of an option again when it changes? IV does not "exist" before the option price FROM WHICH and only from which we can calculate it, so how can we use it to predict the very variable from which it was derived? Am I clear here? If we think of VEGA as a measure how the price of a call can change if the actual variance (as measured by constant updating the standard deviation) goes up or down is changed I understand it. But the process of calculating vega from IV would require an option price to EXIST BEFORE we can calculate it!

I would understand if we calculate an IV from a different underlying or index and use it (in case that we can see a high degree of correllation between two underlyings) but not the IV from the same one...

Alex Chaihorsky

Gery

Re: Zeta or Vega = IV or HV

« **Reply #5 on:** January 02, 2010, 05:44:05 AM »

Hi biovirus,

I absolutely understand your point, that is why I was wondering how we could calculate IV from Vega. I know that IV is just a "reverse engineered" volatility value from the already existing option price that the market is trading with. So I can't imagine how Vega could predict IV before knowing what the MM will price the specific underlying.

So it seems that there is confusion around Vega in general. Sources like Investopedia seems to be authentic, so it is a shame that they mislead readers who'd like to learn this field in and of itself.

Anybody else have an opinion on this?

Gery

biovirus

Re: Zeta or Vega = IV or HV

« **Reply #6 on:** January 03, 2010, 12:54:36 AM »

Gery,

Also, there is another side to this. We all accept from the books that Black Sholes is like a formula from G-d. This IV thing is a direct consequence of BS!. Literally, in BS formula if there is a discrepancy between real option price and the BS price - IT MUST BE Implied Volatility! In reality the price of option may differ from BS price because of normal market forces which has nothing to do with voilatility! Or other "expectations": for example - it could be IMPLIED Rho, i.e expectation for risk free money rate to jump up! But in BS the Rho is current and the Volatility is annualized, so, all price descrepancies MUST be because of the Volatility expectations!

I urge you to doenload and read this article: **http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1012075**

The authors show how options were priced 100s years ago with no BS in sight using the boundaries that arbitration set plus hedging options with other options and futures! Does that mean that BS is a "BS"? No, of course not! Greeks are really good approximation and nothing is precise anyway because anything that dees not correspond to the BS is written off as IV! So I am not against greeks or even the concept of IV, just for better understanding of all that smokescreen with IV!

Alex.

Gery

Re: Zeta or Vega = IV or HV

« **Reply #7 on:** January 03, 2010, 01:49:08 AM »

Hello Biovirus,

thanks for the paper, I will read it. Yes I got the notion that real price differs from theo in general. And "they" say reverse engineered that it is because if IV. What if not? You are absolutely right. It could be anything. It could be only a simple supply demand thing in and of itself and might not predict any breakout of any sort.

Greeks are a nice way to measure options sensitivity in "space and time" but for the very moment. It might move that way or not. Since it is in a flux, you cannot really determine what will happen in the next minute, right? Just like in quantum physics:)

Gery

biovirus

Re: Zeta or Vega = IV or HV

« **Reply #8 on:** January 03, 2010, 02:31:50 AM »

Yes, quantitative finance is yet to be discovered by its Schrödinger...
Wave price function is what it will some day be...

Ri$k Doctor

Re: Zeta or Vega = IV or HV

« **Reply #9 on:** January 08, 2010, 07:21:03 AM »

Thank you, Gery and Alex, for this lively discussion. I wish that I was a mathematician to better assist you with all this and it may even be tremendously valuable for trading options. I have benefited greatly from using the Greeks as a Market Maker, managing my inventory management and maintain that they have a much lesser application for retail investors. As a MM you have so much on at so many different strikes and expiries that you need a system to monitor where you stand at any given moment in time and how that will change over time and price movement. The models are not perfect and neither is the MM or the market but using the Greeks, helps a lot. The reason that I dissect a MM position is to be able to get confirmation of what the Greeks are suggesting and so that I can keep my eye and trigger finger on the one or two next trades to make in order to immunize 99% exposure thus not having to worry about the thousands of contracts that I have left.

When your thermomet3r tells you that it is cold, you wear a jacket even if it is off a degree or two. You might find that in the sun, you don't want the jacket. Go with the flow and do what the situation requires of you based on your set of rules. Those little Greek measurements (like a thermometer) are not going to make the difference in your consistent profitability.

In conclusion, I would give it a rest and get on with trading. You guys obviously know enough about options pricing to trade. The bigger issue is that trading with or without good tools, good rules and good discipline will decide your ultimate fate.

Gery

Re: Zeta or Vega = IV or HV

« **Reply #10 on:** January 08, 2010, 01:22:11 PM »

Thanks your Charles for your valuable feedback! I will get back and concentrate on doing trading instead of thinking speculating it
Gery

Gery	**Spreadhacker** « **on:** December 13, 2009, 12:25:10 PM » Hi there, is anyone using Spreadhacker from TOS? I think the tool is great to find nice spreads. Any opinions? Gery
Ri$k Doctor	**Re: Spreadhacker** « **Reply #1 on:** January 08, 2010, 07:32:10 AM » Spread hacker is pretty good, not as good as OptionVue, but it's free. I would still scrutinize and recommendations with your own filter (what makes sense for you). **Own It** as if you came up with the idea and blame no software for its recommendations.

buakaw	**What is RDCC?** « **on:** December 28, 2009, 09:06:16 AM » Heard this term mentioned a few times, what does RDCC stand for? Thanks.
Ri$k Doctor	**Re: What is RDCC?** « **Reply #1 on:** January 08, 2010, 07:27:37 AM » RDCC stands for RiskDoctor Coaching Clinics

buakaw

Protection against market crashes

« **on:** December 28, 2009, 08:53:15 AM »

Hi Charles,
If I was trading a portfolio of options that are theta positive and the aim was to stay delta-neutral, and I use the underlying to hedge delta, I'm concerned about a situation in which:

a) at some point in time I was net long futures because of a prior move up

and then the market for some reason has a 10-20% gap crash down. Now because of the long futures contracts I'm holding I could potentially lose more than my initial capital and the chance of blowing up is great.

What are my options for protecting myself from such scenarios? I recall you talked about replacing futures with options at the end of each market day, but this also presents other, although more minor, risks that I'd love to avoid. Namely
a) decreases my net positive theta
b) presents Vega risk not only to portfolio but also when I buy the hedge at a high IV and am forced to sell it at a lower IV later on
c) high transaction costs from bid-ask spreads and commissions

Are there other options for protecting myself while sticking purely to using futures as my hedging instrument?

Thanks!

Ri$k Doctor

Re: Protection against market crashes

« **Reply #1 on:** January 08, 2010, 06:46:50 AM »

Firstly, it is never necessary to have naked positive theta. The positive theta on a naked call is equal to 2 short call verticals if the strikes are far enough apart. Replace naked short options with a greater amount of credit spreads which equal the positive theta.

Secondly, go ahead and 'negative' scalp your gamma with stock or futures intra-day then at day's end replace the underlying with an ATM vertical with the same delta, for inter-day gap protection.

Cyrus

Optionetics & Slingshots

« **on:** October 21, 2009, 10:59:45 AM »

Hello Ri$kDoctor,
A couple of days ago a friend attended an Optionetics seminar that was presented by George Fontinalis.

He presented the following bullish trade on GLD where he referred to the extra long call on the fly as the 'kicker' (Hmm, I wonder where I've heard that before).

The total package was referred to as a "butterfly with explosion hedge".

The spread is this:
Jan10 104/111/118 fly + extra Jan10 call at 118. With GLD currently at around 104
Therefore it's Jan10 +1 x 104 / -2 x 111 / +2 x 118

I would like to get your view on this trade, assuming someone has a bullish bias on GLD for the next few weeks.

-Cyrus

Ri$k Doctor

Optionetics & Slingshots

« **Reply #1 on:** October 21, 2009, 04:50:12 PM »

I don't know how George selects his strikes. It may be that he is generally bullish but I think there are better ways to manifest this particular bullish trade (that I call a slingshot). Here is the current options chain and the JAN 104/111/118 Butterfly is 1.15ish and the 118 Call is 1.10ish (total 2.25ish):

SPDR Gold Shares ETF

Bid	Ask	Size	Volume
103.80	103.88	0x0	16m

103.745 +0.325 +0.31% Ext Hrs 103.86 @ 19:59:20

Nov09 | Dec09 | Jan10 | Mar10 | Jun10 | Sep10 | Jan11

Mark	Theta	Delta	Gamma	Bid	Vega	Imp Vol	Ask	STRIKES	Mark	Theta	Delta	Gamma	Bid	Vega	Imp Vol	Ask
CALLS								Nov09 (31 days)	PUTS							
0.625	-0.0286	0.1834	0.0408	0.60	0.0802	21.75%	0.65	110.0	6.90	-0.0297	-0.8091	0.0396	6.80	0.0818	22.22%	7.00
0.50	-0.0253	0.1504	0.0356	0.45	0.0709	22.00%	0.55	111.0	7.80	-0.0278	-0.8355	0.0342	7.70	0.0745	22.97%	7.90
0.425	-0.0237	0.1291	0.0309	0.40	0.0641	22.84%	0.45	112.0	8.70	-0.0256	-0.8588	0.0293	8.60	0.0672	23.56%	8.80
0.35	-0.0215	0.1089	0.0267	0.30	0.0570	23.44%	0.40	113.0	9.60	-0.0222	-0.8834	0.0241	9.50	0.0587	23.56%	9.70
0.30	-0.0198	0.0936	0.0232	0.25	0.0512	24.19%	0.35	114.0	10.55	-0.0210	-0.8958	0.0201	10.40	0.0538	24.44%	10.70
0.225	-0.0166	0.0743	0.0195	0.20	0.0433	24.19%	0.25	115.0	11.50	-0.0198	-0.9064	0.0165	11.40	0.0493	25.19%	11.60
0.175	-0.0141	0.0598	0.0164	0.15	0.0368	24.37%	0.20	116.0	12.45	-0.0184	-0.9161	0.0129	12.30	0.0448	25.69%	12.60
0.15	-0.0119	0.0483	0.0137	0.10	0.0313	24.62%	0.20	117.0	13.45	-0.0195	-0.9164	0.0115	13.30	0.0444	27.44%	13.60
0.125	-0.0114	0.0437	0.0122	0.10	0.0289	25.62%	0.15	118.0	14.40	-0.0184	-0.9229	0.0094	14.30	0.0411	27.88%	14.50
0.075	-0.0079	0.0293	0.0091	0.05	0.0211	24.75%	0.10	119.0	15.40	-0.0196	-0.9221	0.0084	15.30	0.0411	29.62%	15.50
0.075	-0.0071	0.0252	0.0078	0.05	0.0186	25.37%	0.10	120.0	16.35	-0.0190	-0.9258	0.0160	16.20	0.0389	30.13%	16.50
0.075	-0.0075	0.0249	0.0074	0.05	0.0184	26.75%	0.10	121.0	17.35	-0.0199	-0.9252	0.0171	17.20	0.0388	31.62%	17.50
0.075	-0.0082	0.0258	0.0071	0.05	0.0189	28.37%	0.10	122.0	18.35	-0.0215	-0.9235	0.0158	18.20	0.0394	33.50%	18.50
0.05	-0.0065	0.0199	0.0058	0.00	0.0153	28.25%	0.10	123.0	19.35	-0.0226	-0.9226	0.0167	19.20	0.0395	35.06%	19.50

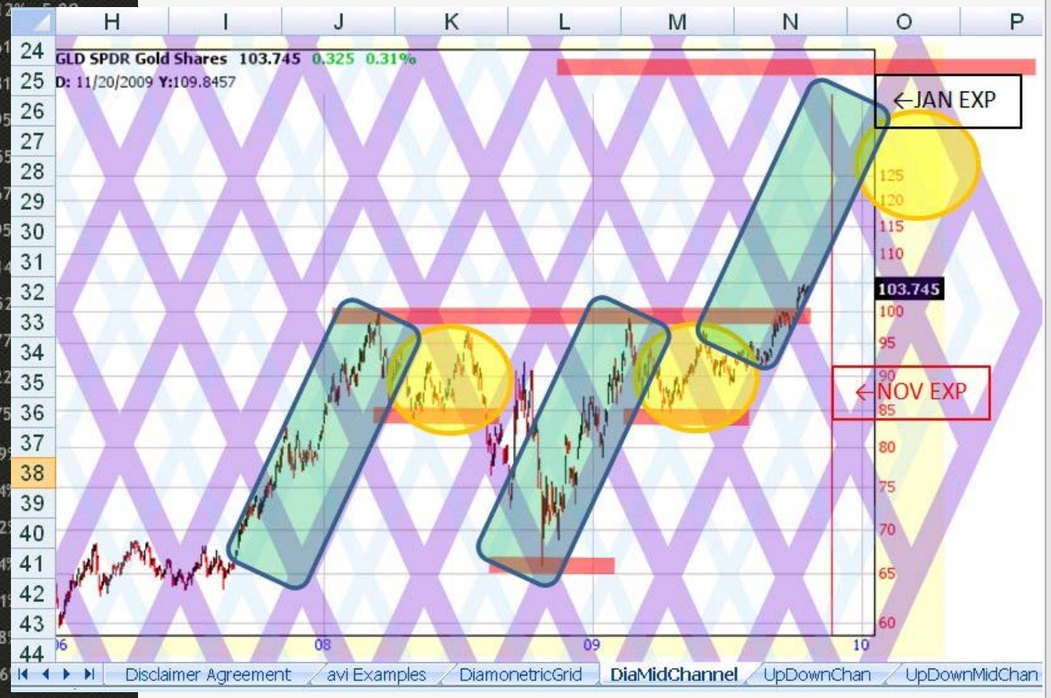
SPDR Gold Shares ETF

Bid	Ask	Size	Volume
103.80	103.88	0x0	16m

103.745 +0.325 +0.31% Ext Hrs 103.86 @ 19:59:20

Nov09 | Dec09 | ✓ Jan10 | Mar10 | Jun10 | Sep10 | Jan11

Mark	Theta	Delta	Gamma	Bid	Vega	Imp Vol	Ask	STRIKES	Mark	Theta	Delta	Gamma	Bid	Vega	Imp Vol	Ask
CALLS								Jan10 (87 days)	PUTS							
4.30	-0.0258	0.5128	0.0359	4.20	0.2008	21.97%	4.40	104.0	4.50	-0.0254	-0.4874	0.0361	4.40	0.2008	21.81%	4.60
3.85	-0.0258	0.4770	0.0359	3.80	0.2006	21.97%	3.90	105.0	5.10	-0.0257	-0.5226	0.0357	5.00	0.2006	22.06%	5.20
3.50	-0.0260	0.4436	0.0350	3.40	0.1990	22.37%	3.60	106.0	5.70	-0.0255	-0.5573	0.0353	5.60	0.1989	22.12%	5.80
3.20	-0.0261	0.4122	0.0338	3.10	0.1963	22.80%	3.30	107.0	6.40	-0.0257	-0.5886	0.0340	6.30	0.1961	22.61%	6.50
2.875	-0.0256	0.3804	0.0330	2.80	0.1923	22.87%	2.95	108.0	7.10	-0.0254	-0.6196	0.0329	7.00	0.1921	22.81%	7.20
2.60	-0.0252	0.3514	0.0317	2.55	0.1875	23.14%	2.65	109.0	7.80	-0.0248	-0.6495	0.0318	7.70	0.1871	22.95%	7.90
2.35	-0.0247	0.3241	0.0304	2.30	0.1819	23.41%	2.40	110.0	8.60	-0.0247	-0.6739	0.0300	8.50	0.1821	23.55%	8.70
2.125	-0.0241	0.2983	0.0291	2.05	0.1758	23.64%	2.20	111.0	9.35	-0.0239	-0.7004	0.0287	9.20	0.1757	23.67%	9.50
1.925	-0.0234	0.2748	0.0276	1.85	0.1693	23.94%	2.00	112.0	10.15	-0.0233	-0.7237	0.0272	10.00	0.1693	23.95%	10.30
1.75	-0.0229	0.2539	0.0261	1.70	0.1629	24.33%	1.80	113.0	10.95	-0.0224	-0.7462	0.0257	10.80	0.1623	24.14%	11.10
1.60	-0.0222	0.2339	0.0247	1.55	0.1561	24.64%	1.65	114.0	11.80	-0.0218	-0.7651	0.0241	11.70	0.1557	24.52%	11.90
1.45	-0.0213	0.2149	0.0233	1.40	0.1490	24.89%	1.50	115.0	12.65	-0.0210	-0.7836	0.0225	12.50	0.1487	24.77%	12.80
1.30	-0.0205	0.1973	0.0219	1.25	0.1419	25.14%	1.35	116.0	13.55	-0.0205	-0.7984	0.0210	13.40	0.1425	25.22%	13.70
1.20	-0.0198	0.1829	0.0206	1.15	0.1357	25.56%	1.25	117.0	14.45	-0.0200	-0.8109	0.0195	14.30	0.1370	25.75%	14.60
1.10	-0.0190	0.1679	0.0193	1.05	0.1288	25.81%	1.15	118.0	15.30	-0.0187	-0.8281	0.0180	15.20	0.1289	25.69%	15.50
1.00	-0.0181	0.1542	0.0181	0.95	0.1220	26.06%	1.05	119.0	16.20	-0.0179	-0.8408	0.0166	16.10	0.1224	25.94%	16.40
0.90	-0.0172	0.1413	0.0169	0.85	0.1153	26.28%	0.95	120.0	17.15	-0.0179	-0.8470	0.0154	17.00	0.1189	26.72%	17.30
0.80	-0.0161	0.1275	0.0157	0.75	0.1078	26.31%	0.85	121.0	18.05	-0.0170	-0.8585	0.0140	17.90	0.1124	26.84%	18.20
0.75	-0.0157	0.1198	0.0148	0.70	0.1033	26.84%	0.80	122.0	19.00	-0.0167	-0.8649	0.0129	18.90	0.1085	27.41%	19.10
0.70	-0.0150	0.1109	0.0138	0.65	0.0980	27.19%	0.75	123.0	19.95	-0.0164	-0.8713	0.0118	19.80	0.1044	27.88%	20.10
0.65	-0.0146	0.1043	0.0130	0.60	0.0938	27.69%	0.70	124.0	20.85	-0.0156	-0.8805	0.0105	20.70	0.0978	28.06%	21.00
0.575	-0.0136	0.0942	0.0120	0.55	0.0873	27.72%	0.60	125.0	21.80	-0.0151	-0.8854	0.0095	21.60	0.0949	28.34%	22.00
0.525	-0.0127	0.0857	0.0112	0.50	0.0816	27.84%	0.55	126.0	22.80	-0.0155	-0.8859	0.0088	22.70	0.0941	29.31%	22.90
0.475	-0.0122	0.0797	0.0104	0.45	0.0773	28.19%	0.50	127.0	23.75	-0.0152	-0.8900	0.0079	23.60	0.0909	29.72%	23.90
0.45	-0.0118	0.0747	0.0098	0.40	0.0737	28.59%	0.50	128.0	24.70	-0.0148	-0.8938	0.0070	24.60	0.0878	30.06%	24.80
0.40	-0.0109	0.0678	0.0091	0.35	0.0686	28.69%	0.45	129.0	25.65	-0.0146	-0.8969	0.0061	25.50	0.0851	30.44%	25.80
0.40	-0.0111	0.0666	0.0087	0.35	0.0677	29.50%	0.45	130.0	26.65	-0.0152	-0.8957	0.0058	26.50	0.0854	31.50%	26.80



Here is the latest Diamonetric Grid and I agree that GLD is in a bull trend and may even eventually fulfill its reverse head and shoulders pattern identified by the red horizontal lines. In the meantime, you have a pattern of these bull moves identified by the bluish rectangles and both times before when the WickZones were violated the market consolidated in the first two yellow ovals. If the current move up is just as steep and long, it may have a tendency to repeat the consolidation in the third yellow oval. That would be in the 125 area by JAN expiry (the end of the chart) and bode well for the JAN 118 kicker but not for the JAN butterfly. If GLD continues on its current tact it will reach 113ish to 120ish by NOV expiry (red horizontal line). Given how cheap the call and call verticals are for NOV, up there, it seems like a more appropriate play for right now.

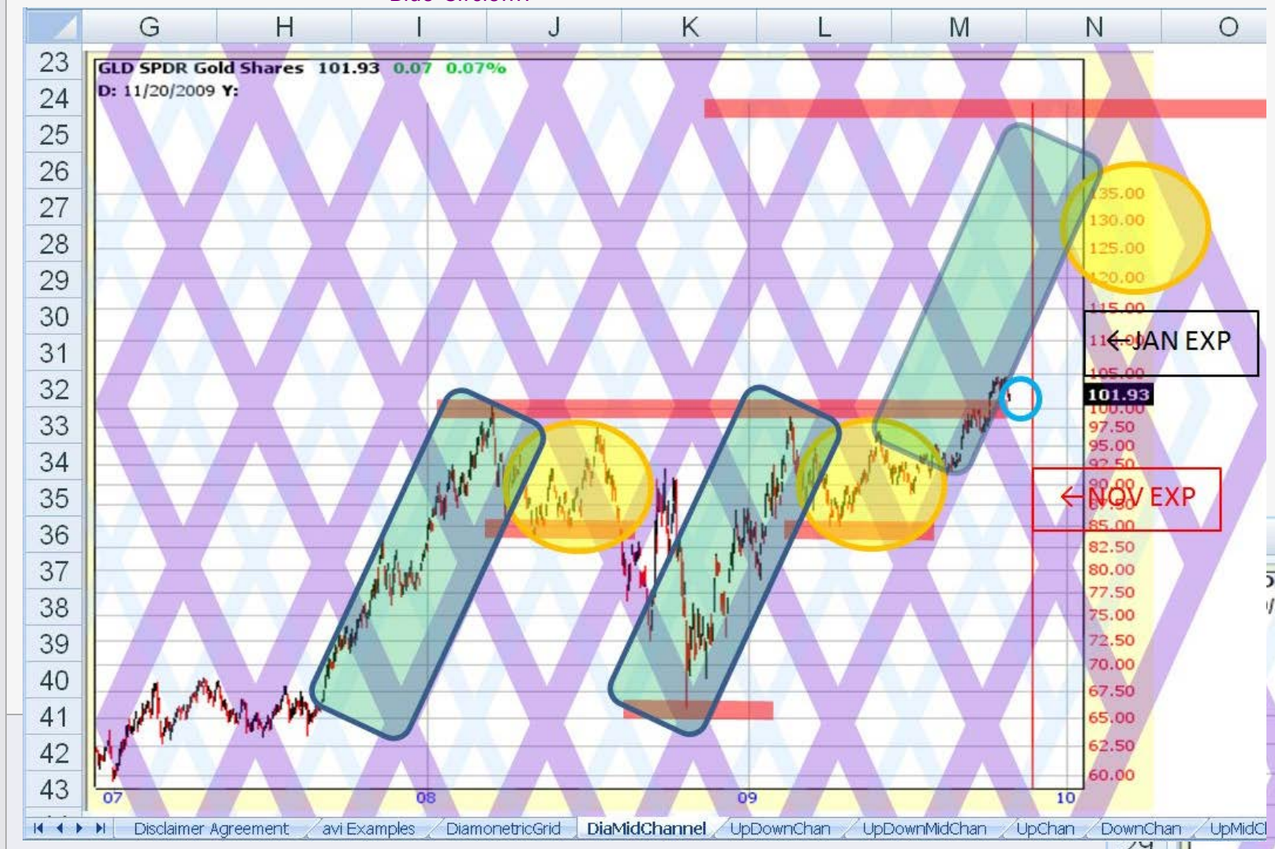
Ri$k Doctor

Re: Optionetics & Slingshots

« **Reply #2 on:** November 05, 2009, 02:13:26 PM »

Posted on: Oct. 21 2009,8:50

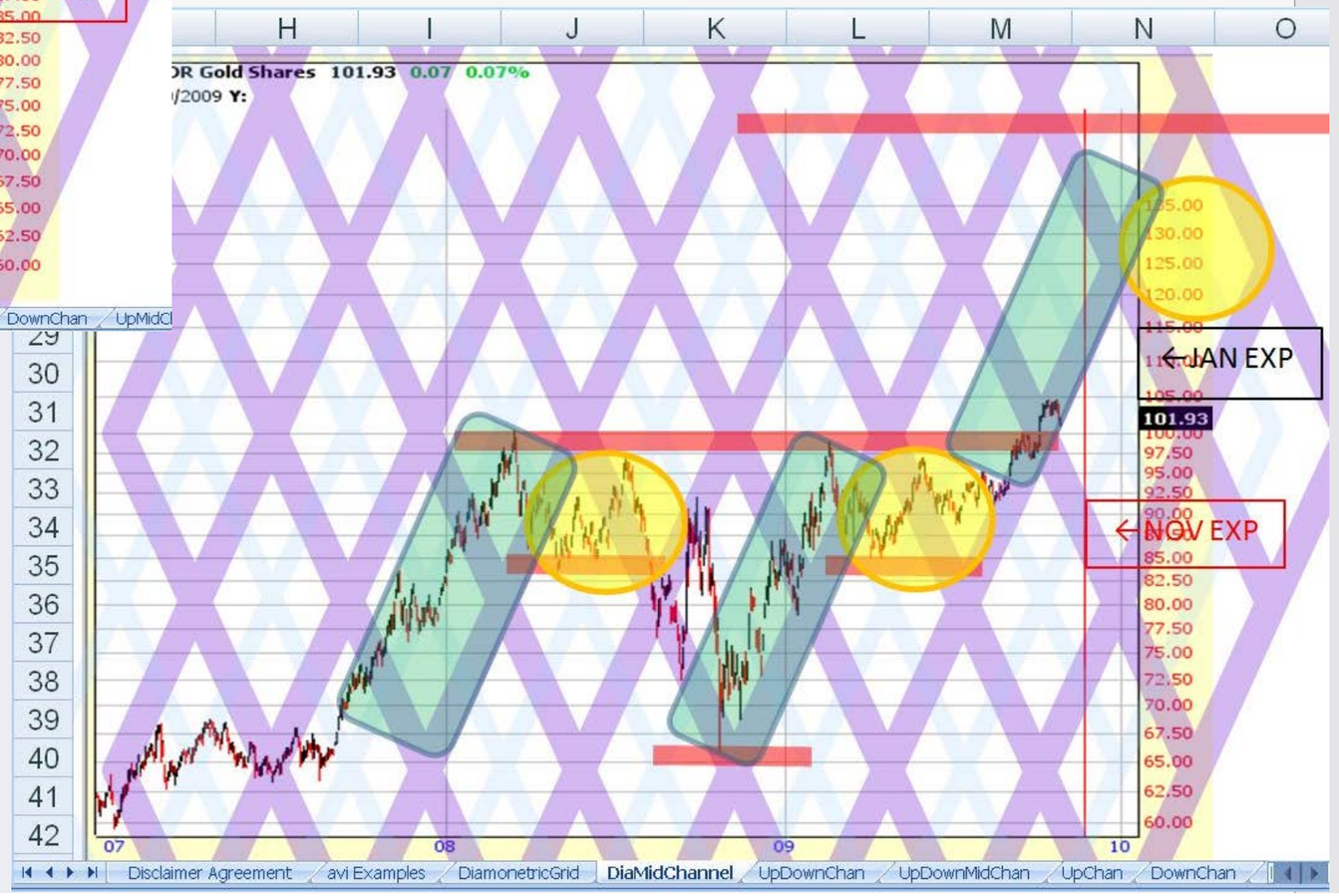
As anticipated in the RD Coching Clinic on October 22nd, the WickZone was positioned in such a way that a perhaps false violation was iminent. Today's chart, shows that violation in the Blue Circle...:



...requiring one of 2 things.

1.) Abandon the position and the Grid.
2.) Re-Position the Grid:

This is to illustrate how to plan and manage a trade and not a trading recommendation. Many analysts suggest having some portfolio representation with Gold or Gold products such as GLD and this is looking like the dip to buy. I would go with a cheap NOV vertical that can double, triple, or quadruple in the short run, if this Grid proves to be accurate. had you bought a cheap NOV vertical or gone with that JAN Slinshot position selected by George, both have lost over half their value so far. A 10 Lot of George's would have gone from 225ish to 1.70ish, down $550.



SPDR Gold Shares ETF

Bid	Ask	Size	Volume
101.83	101.84	5x45	12.5m

101.84 -0.02 -0.02%

Nov09 | Dec09 | ✓ Jan10 | Mar10 | Jun10 | Sep10 | Jan11

Jan10 (81 days)

CALLS Mark	Theta	Delta	Gamma	Vega	Imp Vol	Bid	STRIKES	PUTS Mark	Theta	Delta	Gamma	Vega	Imp Vol	Bid
3.025	-0.0242	0.4349	0.0396	0.1890	20.66%	2.95	104.0	5.10	-0.0236	-0.5670	0.0401	0.1888	20.31%	5.00
2.65	-0.0237	0.3965	0.0387	0.1853	20.69%	2.60	105.0	5.80	-0.0236	-0.6028	0.0385	0.1853	20.75%	5.70
2.35	-0.0234	0.3625	0.0371	0.1805	21.00%	2.30	106.0	6.45	-0.0229	-0.6395	0.0373	0.1800	20.75%	6.30
2.10	-0.0230	0.3304	0.0353	0.1747	21.30%	2.05	107.0	7.20	-0.0224	-0.6720	0.0355	0.1740	21.02%	7.10
1.85	-0.0221	0.2988	0.0336	0.1676	21.45%	1.80	108.0	7.95	-0.0216	-0.7031	0.0336	0.1669	21.19%	7.80
1.65	-0.0215	0.2722	0.0316	0.1607	21.84%	1.60	109.0	8.75	-0.0210	-0.7293	0.0314	0.1599	21.56%	8.60
1.50	-0.0209	0.2480	0.0296	0.1534	22.23%	1.45	110.0	9.55	-0.0199	-0.7565	0.0294	0.1515	21.69%	9.40
1.30	-0.0198	0.2229	0.0278	0.1450	22.33%	1.25	111.0	10.40	-0.0192	-0.7779	0.0272	0.1440	22.09%	10.30
1.20	-0.0193	0.2056	0.0258	0.1386	22.91%	1.15	112.0	11.25	-0.0182	-0.8000	0.0251	0.1356	22.25%	11.10
1.05	-0.0181	0.1834	0.0241	0.1297	22.94%	1.00	113.0	12.15	-0.0176	-0.8160	0.0230	0.1288	22.75%	12.00
0.95	-0.0175	0.1680	0.0223	0.1229	23.47%	0.90	114.0	13.05	-0.0170	-0.8304	0.0210	0.1222	23.22%	12.90
0.875	-0.0168	0.1542	0.0207	0.1164	23.87%	0.85	115.0	13.95	-0.0162	-0.8451	0.0191	0.1150	23.50%	13.80
0.775	-0.0158	0.1390	0.0191	0.1089	24.09%	0.75	116.0	14.85	-0.0153	-0.8583	0.0172	0.1081	23.75%	14.70
0.70	-0.0151	0.1273	0.0177	0.1027	24.50%	0.65	117.0	15.75	-0.0141	-0.8723	0.0152	0.1002	23.78%	15.60
0.65	-0.0144	0.1160	0.0164	0.0964	24.87%	0.60	118.0	16.75	-0.0145	-0.8748	0.0141	0.0984	24.84%	16.60

A 20 lot of 110/111 vertical at .125ish would be .05ish down $150:

SPDR Gold Shares ETF

Bid	Ask	Size	Volume
101.73	101.74	9x22	12.8m

101.74 -0.12 -0.12%

✓ Nov09 | Dec09 | Jan10 | Mar10 | Jun10 | Sep10 | Jan11

Nov09 (25 days)

CALLS Mark	Theta	Delta	Gamma	Vega	Imp Vol	Bid	STRIKES	PUTS Mark	Theta	Delta	Gamma	Vega	Imp Vol	Bid
0.225	-0.0184	0.0899	0.0282	0.0446	21.63%	0.20	110.0	8.45	-0.0171	-0.9099	0.0224	0.0433	20.81%	8.30
0.175	-0.0159	0.0721	0.0232	0.0380	22.25%	0.15	111.0	9.45	-0.0186	-0.9113	0.0194	0.0425	22.94%	9.30
0.15	-0.0144	0.0606	0.0196	0.0333	23.06%	0.10	112.0	10.40	-0.0175	-0.9204	0.0148	0.0387	23.81%	10.30

Ri$k Doctor

Re: Optionetics & Slingshots
« **Reply #3 on:** November 30, 2009, 09:09:56 AM »

By NOV expiration the 110/111 Vertical went to 1.00, 8X its cost. The JAN Slingshot is up about 50% at 3.39ish. Rolling to a cheap DEC vertical, perhaps the 119/120, could be bought for about .17ish.

GLD SPDR GOLD TRUST GS ETB 11/20/09 112.94 +.64 +0.57%

UNDERLYING

Last	Net Chng	Volume	Open	High	Low
112.94	+.64	17,309,992	111.74	112.94	111.54

OPTIONS Spread: Single Layout: Mark, Delta, Vega, Impl Vol Strikes: 16

CALLS								PUTS					
Mark	Delta	Vega	Impl Vol	Bid	Ask	Exp	Strike	Bid	Ask	Mark	Delta	Vega	Impl Vol
2.875	1.00	.00	--	2.84	2.91	NOV 09	110	0	.01	.005	.00	.00	0.00%
1.88	1.00	.00	--	1.84	1.92	NOV 09	111	0	.01	.005	.00	.00	0.00%
.885	1.00	.00	--	.85	.92	NOV 09	112	0	.01	.005	.00	.00	0.00%
.025	.26	.02	4.38%	.01	.04	NOV 09	113	.14	.19	.165	-1.00	.00	0.19%
.005	.00	.00	0.00%	0	.01	NOV 09	114	1.06	1.18	1.12	-1.00	-20.60	0.19%
.005	.00	.00	0.00%	0	.01	NOV 09	115	2.08	2.18	2.13	-1.00	-30.60	0.19%
.005	.00	.00	0.00%	0	.01	NOV 09	116	3.05	3.20	3.125	-1.00	-40.60	0.19%
.01	.02	.00	33.24%	0	.02	NOV 09	117	4.05	4.20	4.125	-1.00	-50.60	0.19%
.01	.01	.00	39.59%	0	.02	NOV 09	118	4.90	5.20	5.05	-1.00	.00	--
.005	.00	.00	0.00%	0	.01	NOV 09	119	6.05	6.25	6.15	-1.00	-70.60	0.19%
.01	.01	.00	51.58%	0	.02	NOV 09	120	6.95	7.25	7.10	-1.00	.00	0.19%
DEC 09 (28) 100													24.52%
8.425	.86	.07	24.45%	8.35	8.50	DEC 09	105	.53	.54	.535	-.14	.07	23.94%
7.525	.84	.08	23.55%	7.45	7.60	DEC 09	106	.67	.68	.675	-.16	.08	23.57%
6.675	.80	.09	23.00%	6.60	6.75	DEC 09	107	.81	.84	.825	-.20	.09	23.00%
5.90	.76	.10	22.89%	5.85	5.95	DEC 09	108	1.01	1.04	1.025	-.24	.10	22.63%
5.125	.72	.11	22.36%	5.05	5.20	DEC 09	109	1.25	1.28	1.265	-.28	.11	22.25%
4.425	.67	.11	22.13%	4.35	4.50	DEC 09	110	1.56	1.57	1.565	-.33	.12	22.01%
3.775	.62	.12	21.89%	3.75	3.80	DEC 09	111	1.90	1.95	1.925	-.38	.12	21.85%
3.225	.56	.13	22.02%	3.20	3.25	DEC 09	112	2.35	2.38	2.365	-.44	.13	21.90%
2.695	.50	.13	21.84%	2.69	2.70	DEC 09	113	2.83	2.87	2.85	-.50	.13	21.83%
2.26	.45	.13	21.97%	2.24	2.28	DEC 09	114	3.35	3.45	3.40	-.55	.13	21.84%
1.88	.39	.12	22.09%	1.86	1.90	DEC 09	115	3.95	4.05	4.00	-.61	.12	21.79%
1.555	.34	.12	22.24%	1.54	1.57	DEC 09	116	4.60	4.75	4.675	-.66	.12	21.94%
1.275	.29	.11	22.38%	1.25	1.30	DEC 09	117	5.35	5.45	5.40	-.71	.11	22.10%
1.055	.25	.10	22.70%	1.03	1.08	DEC 09	118	6.10	6.25	6.175	-.75	.10	22.34%
.865	.22	.09	22.97%	.85	.88	DEC 09	119	6.90	7.10	7.00	-.79	.09	22.74%
.705	.18	.08	23.16%	.69	.72	DEC 09	120	7.75	7.90	7.825	-.82	.08	22.73%
JAN 10 (56) 100													25.29%
9.90	.82	.11	23.36%	9.80	10.00	JAN 10	104	1.01	1.05	1.03	-.18	.12	23.39%
9.10	.80	.13	23.25%	9.05	9.15	JAN 10	105	1.19	1.24	1.215	-.20	.13	23.17%
8.30	.77	.14	22.89%	8.20	8.40	JAN 10	106	1.41	1.45	1.43	-.23	.14	22.93%
7.55	.74	.14	22.72%	7.45	7.65	JAN 10	107	1.66	1.70	1.68	-.26	.15	22.76%
6.825	.71	.15	22.50%	6.75	6.90	JAN 10	108	1.95	1.99	1.97	-.29	.15	22.63%
6.175	.67	.16	22.53%	6.10	6.25	JAN 10	109	2.28	2.32	2.30	-.33	.16	22.54%
5.55	.63	.17	22.49%	5.50	5.60	JAN 10	110	2.65	2.70	2.675	-.37	.17	22.49%
4.975	.59	.17	22.51%	4.90	5.05	JAN 10	111	3.05	3.15	3.10	-.41	.17	22.50%
4.45	.55	.18	22.57%	4.40	4.50	JAN 10	112	3.50	3.60	3.55	-.45	.18	22.43%
3.95	.51	.18	22.55%	3.90	4.00	JAN 10	113	4.05	4.10	4.075	-.49	.18	22.55%
3.525	.47	.18	22.74%	3.45	3.60	JAN 10	114	4.60	4.70	4.65	-.53	.18	22.74%
3.10	.44	.18	22.71%	3.05	3.15	JAN 10	115	5.15	5.30	5.225	-.56	.18	22.71%
2.765	.40	.17	22.98%	2.73	2.80	JAN 10	116	5.80	5.95	5.875	-.60	.17	22.89%
2.445	.36	.17	23.14%	2.41	2.48	JAN 10	117	6.45	6.60	6.525	-.64	.17	22.88%
2.17	.33	.16	23.38%	2.14	2.20	JAN 10	118	7.20	7.35	7.275	-.67	.16	23.26%
1.91	.30	.16	23.53%	1.88	1.94	JAN 10	119	7.95	8.05	8.00	-.70	.15	23.32%
1.705	.27	.15	23.87%	1.68	1.73	JAN 10	120	8.75	8.85	8.80	-.73	.15	23.68%
1.50	.25	.14	24.04%	1.47	1.53	JAN 10	121	9.50	9.70	9.60	-.75	.14	23.88%

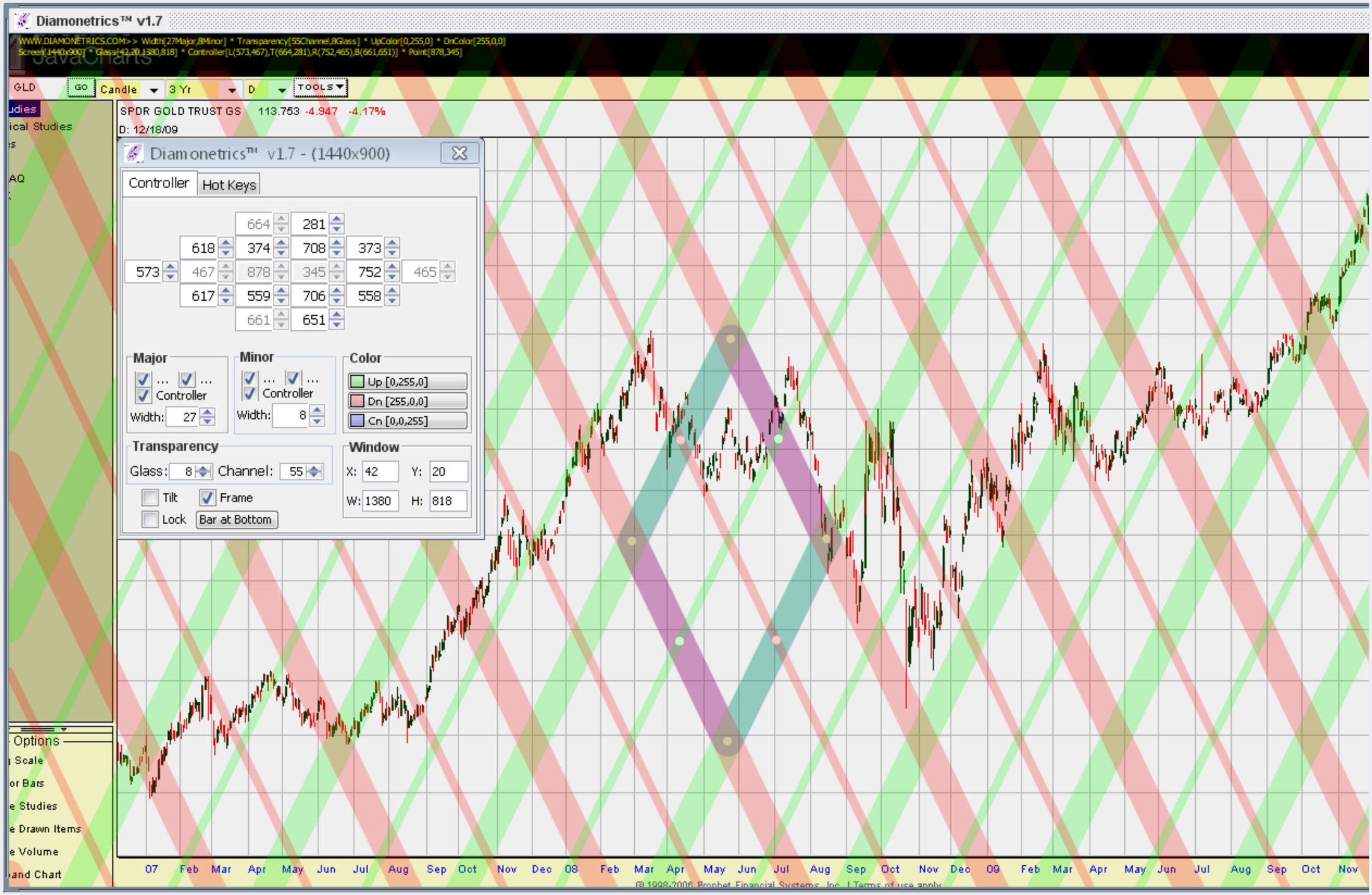
Updated Grid to follow.

Ri$k Doctor

Re: Optionetics & Slingshots

« **Reply #4 on:** December 05, 2009, 11:00:50 PM »

Updated Grid:



James Parker

An Argument For Box Dissection

« **on:** October 22, 2009, 02:49:41 AM »

On the Option Club Group Forum, Ricky was asking about Pay-Off Graphs that illustrate the 5 different dissections that Charles uses to illustrate
'The Argument for Box Dissection' at pages 32 - 36 of OTTHR.
The discussion so far with Ricky is as follows, along with a copy of the Pay-Off Graphs.

Ricky

Hi, thanks for providing further detail of the kind of PNL Pay-Off that you are looking for, particularly as it relates to 'An Argument for Box Dissection' in Charles' book.
I have copied Charles on this email, as we are currently working on a programme that shows both the PNL Pay-Off Graphs along with the Dissection details.
Although it is not quite ready for release yet, I have quickly adapted it to illustrate the 5 Different Dissections that you refer to, and attached the relevant screenshots for your information.
For the purposes of illustration;

- The Actual Position is the +20c/-10c -50p/+40p at 50/55 strikes respectively for a debit of $15,000
- The Box Dissections are valued at their current value rather than expiry value, but are close enough for this exercise.
- The PNL for both the Actual Position and Synthetic Position are effectively the same [the only difference being the cost of carry on the box which is trivial] and therefore the Pay-off graphs overlay each other.

I suggest that you view the document in Print Preview mode and scroll through the pages to see the effect.
I would be interested in your comments and feedback on this.
Hope this helps
Cheers
James

-----Original Message-----
From: Ricky Jimenez Sent: 21 October 2009 18:35
To: James Parker
Subject: Re: Anybody Know of a Payoff Graph Tool?

Thank you so much, James, for your interest. I will be very happy to give you the details of what I have in mind.
The basic use of the program would be to compare several modifications of an existing position. For example, starting on page 33 of Cottle's "Option Trading: The Hidden Reality", 5 different modifications by adding a box to the position, 20*50C - 50*50P -10*55C + 40*55P, are discussed and compared. I would get much more out of the discussion if I could see the 6 different expiration graphs in front of me, all colored and labled to distinguish them.
The picture I have in my head for entry is of a spreadsheet with the columns labled in order:
Position Identifier, Credit Received(a signed number, negative represents a debit while 0 means you are only interested in seeing the payoff rather than the profit/loss at expiration.)
Underlying units (a signed decimal number signifying the number of underlying in the position divided by the multiplier of the options' contracts), Options Strikes (one column for each strike in the range of interest).
Each position has two rows devoted to it. Entries for the first three columns are put in the first row while the strike columns have the first row for the signed number of calls and the second for the signed number of puts.

Please do not hesitate, James, to change the details if you feel it could be done better.

Algorithm for graph construction

For each strike K, the payoff value for K is calculated as follows: Signed number of underlying units*K +
(K - Ki)* (Signed # Call contracts at strike Ki, where Ki < K) + (Kj - K)*(Signed # Put contracts at strike Kj, where Kj > K).

The slope of the graph at values less than the lowest strike in the position is given by: Signed number of underlying units - Signed number of put contracts in the position.

The slope of the graph at values greater than the highst strike in the position is given by: Signed number of underlying units + Signed number of call contracts in the position.

Here, the horizonal axis represents values of the underlying while the vertical axis represents position payoff/contract mutiplier. One simply connects the payoff values by straight lines to get the payoff graph. In order to get the P/L graph, the payoff graph is raised
(lowered) by the credit (debit) entered for the position. Of course,
one could refine the P/L graph by including risk free interest - dividends up to expiration on the position as part of the credit received. However, I don't think that necessary for a first go.

RJ

Ri$k Doctor

An Argument For Box Dissection
« **Reply #1 on:** October 22, 2009, 05:15:25 AM »

Awesome work James. For Ricky's and other readers' convenience, here is the **Origingal text from Chapter 2.**

Ricky

An Argument For Box Dissection
« **Reply #2 on:** October 26, 2009, 05:50:45 AM »

Yes James, I got your emails and I finally have time to reply. First of all, I think I was mistaken about the discussion of the 5 dissections in OTTHR. These are not modifications of the position, but different ways that equivalent positions (same P&L graph) may be built up from calls and puts. Looking at it in these different ways may suggest different modifications. There are probably better examples in the book for comparing modifications by looking simultaneously at their payoff or P&L graphs and perhaps you can suggest a couple.

That said, one value of the discussed example is to test out software for drawing payoff graphs. While the P&L doesn't change between the original position and the dissections, the payoff graphs are all different. The payoff graph of a short box, with strikes K1 < K2 is a constant (K1 - K2)*# of contracts at each of the 4 corners. So the 5 payoffs of the dissection positions, formed by adding a short box to the original position are found by respectively adding the following constants to the payoff graph of the original position: -100, -50, -250, -200, -150. I have no idea if graphing software can display all of these on a single graph.

RJ

James Parker

An Argument For Box Dissection
« **Reply #3 on:** October 26, 2009, 06:00:00 AM »

Ricky

Hi, you are right, the 5 dissections in OTTHR are not 'adjustments' to a position, but a different way to look at the same position.

In terms of using the Pay-Off Graph software to look at different adjustments, I have used the examples Charles gives in **'Managing the Beast' pages 38-42 in OTTHR,** and here is **Sledgehammer** for reference.

The Option Prices that I have used are slightly to different to those used by Charles, but the principles and pay-off graphs are the same.

Hope this helps.

Cheers
James

beny12

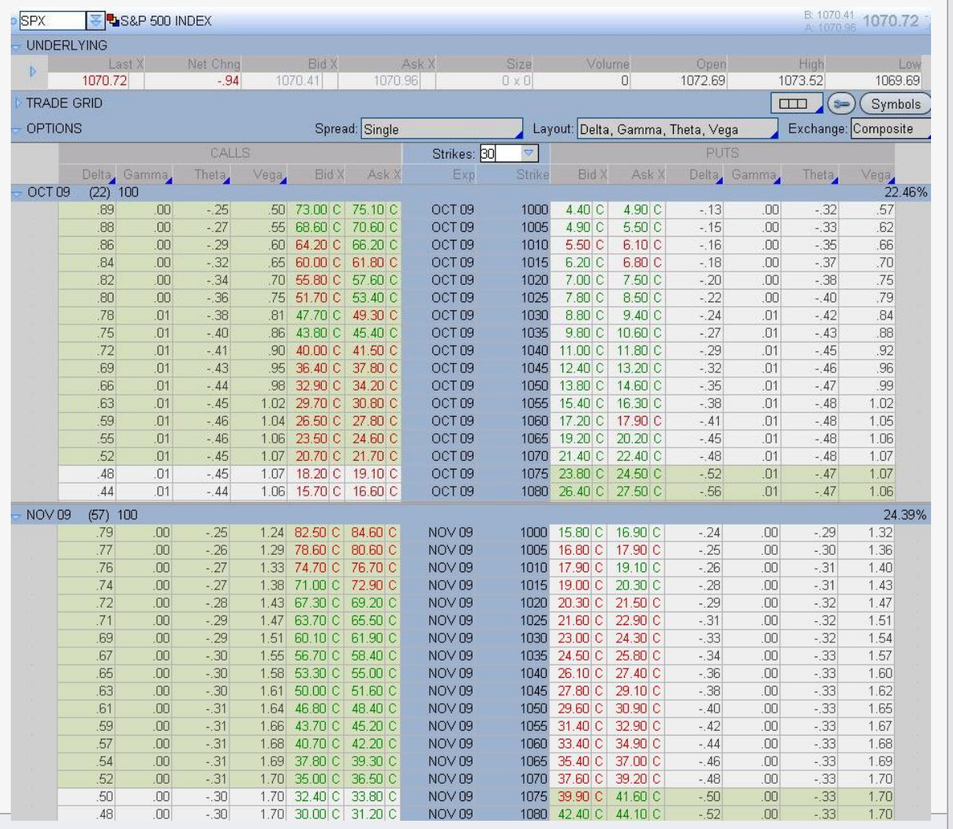
OTM Put Calendar Spread - Problem of increasing IV

« **on:** September 19, 2009, 07:20:07 AM »

Hello,
I have one question and perhaps someone knows the answer.

Recently I traded a SPX reverse calendar spread (long Sept / short Oct). As the market went up the implied volatility of the OTM short Oct put increased a lot and therefore the profit was much less than the pay off showed at entry.

Is there any possibility to hedge the implied volatility of that reverse calendar spread or of the short put or even better make the reverse calendar spread vega neutral?thanks and regards
Ben



Ri$k Doctor

OTM Put Calendar Spread - Problem of increasing IV

« **Reply #1 on:** September 23, 2009, 06:23:41 AM »

The deferred option swam up the down-side skew with a more sensitive vega even when overall IV was dropping.

Quote
Is there any possibility to hedge the implied volatility of that reverse calendar spread or of the short put or even better make the reverse calendar spread vega neutral?

Not really, unless you wanted to do a put diagonal back spread: For example, today with the SPX at 1070.72;

OCT having 22 Days to go, the OCT 1000 put has a delta of -.13 and a vega of .57. NOV having 57 Days to go, the NOV 1070 put has a delta of -.48 and a vega of 1.70.

This is not a recommendation but buying 3 OCT 1000 Puts and selling 1 NOV 1070 Put gets you Vega neutral and leaves you long 9 deltas per spread (similar to the delta if you simply shorted the 1030 Put Calendar (.33 vs. .24)). It is a totally different play and it is done for a much different kind of a credit and eventual liability. It depends what you are playing for and it is always important to isolate the particular speculation: IV play or directional play?

beny12

OTM Put Calendar Spread - Problem of increasing IV

« Reply #2 on: September 24, 2009, 10:02:10 PM »

Hello,

thanks for your answer!

As I see it won't be able to hedge vega without changing the "play"/payoff.
The diagonal backspread is a good idea and I'll have a look at that strategy.

QUOTE
It depends what you are playing for and it is always important to isolate the particular speculation: IV play or directional play?

I have a directional play but it is a little bis vega sensitive and therefore I'm looking for a way to reduce/eliminate that risk.

best regards and thanks

Ri$k Doctor

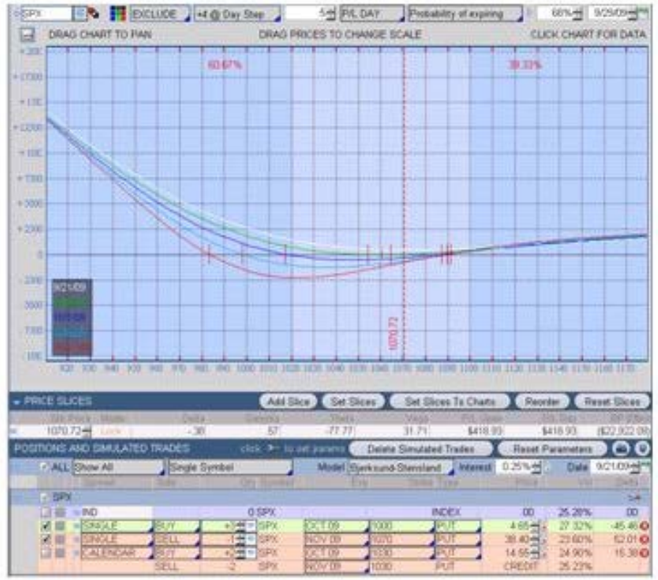
OTM Put Calendar Spread - Problem of increasing IV

« **Reply #3 on:** September 29, 2009, 12:28:59 PM »

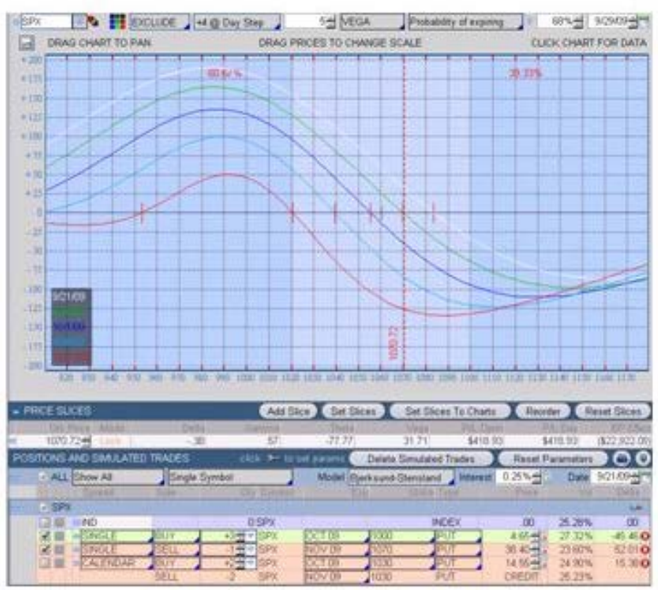
Quite different plays indeed (The PDF is clearer for Zooming in):

Diagonal OCT 1000/NOV 1070 Put Back Spread (+3 by -1)

P/L over time

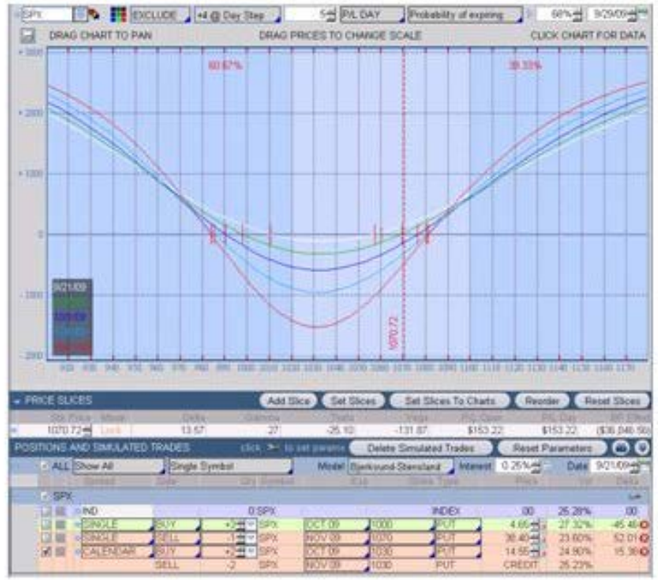


Vega over time

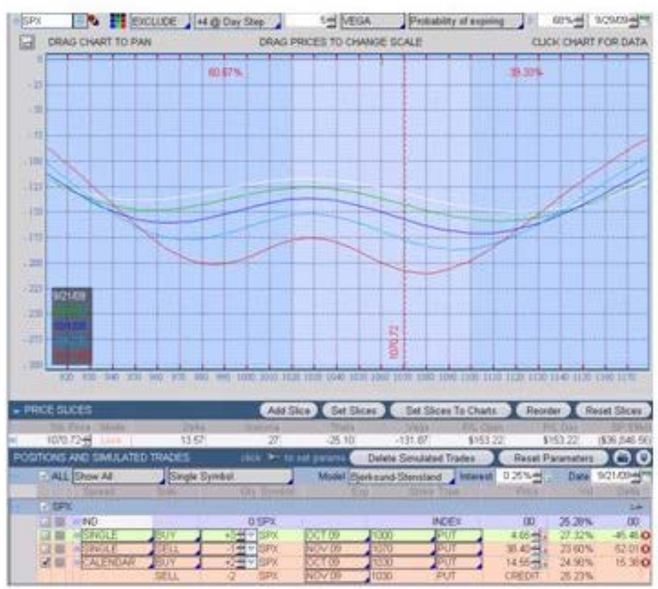


Short 2 SPX OCT/NOV 1030 Put Calendars

P/L over time



Vega over time



The comparison is 2 Calendars vs. one a 3 by -1 Diagonal Back Spread because they have a similar Credit of $29.10 for the Short Calendar vs $24.45 Credit for the Back Spread.

In the last week, the ATM IVs came closer together from almost 2% to just under 1% so your analysis would have to include research on the IVs of the particular strikes involved in your spread. Also, in there is the synthetic futures spread where you have basis risk. From the Option chain in Post Number 2, The OCT SynFut was -1.95 where the OCT SynFut was 1069.30 (1070 + 21.20 - 21.90)* and the NOV SynFut was 1067.35 (1070 + 35.75 - 38.40)*. Having Long Deltas in NOV and Short Deltas in OCT make for a LONG SynFutures spread going for: -1.95.

Just over a week later OCT is 1059.50 (1060 + 1925 - 1975)* and NOV is 1057.20 (1060 +34.20 -37.00) making the OCT/NOV spread -2.30:

In summary, whether a straight calendar or a diagonal backspread, the intermonth aspects need to be considered especially if your size was to grow over time.

*Strike + Call Mark - Put Mark

Ri$k Doctor

Possible GLD Straddle

« **on:** September 17, 2009, 12:11:53 PM »

GLD SPDR GOLD SHARES ETB B: 99.50 A: 99.51 **99.5015** -.408 -0.41

UNDERLYING

Last X		Net Chng	Bid X		Ask X		Size	Volume	Open	High	Low
99.5015	D	-.4085	99.50	M	99.51	Q	20 x 11	9,848,604	99.66	100.08	99.04

TRADE GRID — Symbols

OPTIONS — Spread: Single — Layout: Delta, Gamma, Theta, Vega — Exchange: Composite — Strikes: 9

CALLS Delta	Gam.	Theta	Vega	Bid X		Ask X		Exp	Strike	PUTS Bid X		Ask X		Delta	Gam.	Theta	Vega
SEP 09 (1) 100																	22.39%
OCT 09 (29) 100																	23.74%
.80	.05	-.03	.08	5.10	I	5.30	I	OCT 09	95	.70	I	.80	C	-.21	.05	-.03	.08
.74	.05	-.03	.09	4.40	C	4.60	I	OCT 09	96	.95	I	1.05	I	-.27	.05	-.03	.09
.68	.06	-.04	.10	3.70	I	3.90	X	OCT 09	97	1.25	I	1.35	I	-.32	.06	-.04	.10
.61	.06	-.04	.11	3.10	C	3.30	I	OCT 09	98	1.65	I	1.75	I	-.39	.06	-.04	.11
.55	.07	-.04	.11	2.60	I	2.70	I	OCT 09	99	2.10	I	2.20	I	-.45	.07	-.04	.11
.48	.07	-.04	.11	2.15	C	2.25	I	OCT 09	100	2.65	I	2.75	I	-.52	.06	-.04	.11
.42	.06	-.04	.11	1.80	C	1.85	I	OCT 09	101	3.20	I	3.40	C	-.58	.06	-.04	.11
.36	.06	-.04	.11	1.45	I	1.55	I	OCT 09	102	3.90	C	4.10	C	-.64	.06	-.04	.11
.31	.05	-.04	.10	1.20	I	1.30	X	OCT 09	103	4.70	N	4.80	C	-.69	.05	-.04	.10
NOV 09 (64) 100																	25.64%
.70	.04	-.03	.14	6.30	C	6.50	C	NOV 09	95	1.85	C	1.95	C	-.30	.04	-.03	.15
.66	.04	-.03	.15	5.70	C	5.90	C	NOV 09	96	2.20	I	2.30	C	-.34	.04	-.03	.15
.62	.04	-.03	.16	5.10	C	5.30	C	NOV 09	97	2.60	I	2.75	C	-.38	.04	-.03	.16
.58	.04	-.03	.16	4.60	C	4.70	C	NOV 09	98	3.10	I	3.20	C	-.42	.04	-.03	.16
.54	.04	-.03	.17	4.10	C	4.20	I	NOV 09	99	3.60	I	3.70	I	-.46	.04	-.03	.17
.50	.04	-.03	.17	3.70	I	3.80	I	NOV 09	100	4.10	I	4.30	C	-.50	.04	-.03	.17
.46	.04	-.03	.17	3.30	I	3.40	I	NOV 09	101	4.70	C	4.90	C	-.54	.04	-.03	.17
.43	.04	-.03	.16	2.95	I	3.10	C	NOV 09	102	5.40	I	5.60	C	-.57	.04	-.03	.16
.39	.04	-.03	.16	2.65	I	2.75	C	NOV 09	103	6.10	N	6.30	C	-.61	.04	-.03	.16
EC 09 (92) 100																	26.84%
.67	.03	-.02	.18	7.20	C	7.40	C	DEC 09	95	2.70	C	2.85	C	-.33	.03	-.02	.18
.64	.03	-.02	.19	6.60	C	6.80	I	DEC 09	96	3.10	C	3.30	C	-.36	.03	-.02	.19
.61	.03	-.03	.19	6.10	C	6.30	C	DEC 09	97	3.60	C	3.70	I	-.39	.03	-.02	.19
.58	.03	-.03	.20	5.60	C	5.80	C	DEC 09	98	4.10	C	4.20	I	-.42	.03	-.03	.20
.54	.03	-.03	.20	5.10	C	5.30	I	DEC 09	99	4.60	I	4.80	C	-.46	.03	-.03	.20
.51	.03	-.03	.20	4.70	C	4.90	I	DEC 09	100	5.20	I	5.30	I	-.49	.03	-.03	.20
.48	.03	-.03	.20	4.30	C	4.50	I	DEC 09	101	5.80	I	5.90	Q	-.52	.03	-.03	.20
.45	.03	-.03	.20	3.90	C	4.10	I	DEC 09	102	6.40	I	6.60	C	-.55	.03	-.03	.20
.42	.03	-.03	.20	3.60	C	3.80	I	DEC 09	103	7.00	C	7.30	C	-.58	.03	-.03	.20

Ri$k Doctor

RDCC Transcript

« **on:** September 17, 2009, 11:12:38 AM »

[12:14] Jay Sai: Charles, how can we play aapl in down bias, better??
[12:15] Jay Sai: GMCR can go in any of the 3 diamonds, what is better way to approach it.
[12:17] David Kiash: How would we trade this based on these dia grid patterns?
[12:24] David Kiash: did you say----sell a vertical?
[12:25] John Dori: He said buy an ATM vertical or sell a put vertical.
[12:26] David Kiash: tx John
[12:26] John Dori: NP
[12:29] David Kiash: sell which strike then?
[12:29] David Kiash: next strike up?
[12:29] manny ejiofor: The stock is also hard to borrow-----I wouldn't touch it for sure
[12:30] Jay Sai: So, probably buy 60/65 C will be premium neutral?
[12:30] Jay Sai: sorry
[12:31] Jay Sai: you are right, wrong strikes
[12:31] David Kiash: so buy the 65 sell the 70?
[12:31] David Kiash: might be one approach?
[12:35] John Dori: Charles, do you ever trade spot forex?
[12:42] manny ejiofor: Besides, VOl, any other situation that would compel you to sell vertical instead of buying it. Is one better than the other.....just curious george
[12:45] David Kiash: What was the candlestick chart you were looking at saying it??s a "buy the dip market"? It??s hard for me to read what you are reading....Tx
[12:46] John Dori: David, that was a gold chart.
[12:46] David Kiash: Ok tx!
[12:47] John Dori: Don't mention it.
[12:47] manny ejiofor: Great, Thank you
[12:51] Clifford Rote: I am fairly sure Prophet does not have alternative currency display.
[13:00] Iqbal Sandhu: gold could be a candidate for big bad backpreads if it breaks out
[13:00] Iqbal Sandhu: yes
[13:03] John Dori: I checked with TOS and was told that, as of this time, it is only possible to display charts in terms of U.S. dollar. I suggested they may want to make it possible to view in terms of gold or alternative currencies.
[13:04] David Kiash: what about the straddle?
[13:04] David Kiash: atm straddle make sense here?
[13:07] David Kiash: yes that does make sense--the high is somewhere around 1035
[13:07] Iqbal Sandhu: A slingshot would have less outlay and gives kickers also if it takes off. Why not gamma scalp the kickers with backspreads
[13:16] David Kiash: Tx!

Dr D

IMPORTANT TOPIC - BUY-IN RISK

« **on:** September 16, 2009, 10:12:57 AM »

Greetings!
Some readers inquired about the UNG (starting on next page) the other day. This touches on a more general subject that is critical to all spread traders in timespreads, butterflies as well as combos, conversion/reversals etc.
#1 - If you are assigned on a short option or spread leg you must come up with the stock T+1 (the next day)
#2 if you assign someone on a long option or spread leg you DO NOT GET THE STOCK UNTIL T+3 (3 days from now). THIS CAN HAPPEN IF THE STOCK BECOMES HARD TO BORROW OR IMPOSSIBLE TO BORROW. In most cases you can carry the short stock over until settlement day. If the stock goes hard to borrow or impossible to borrow, you can't.
#3 if you do not have the stock to cover your short position your clearing firm will BUY YOU IN AT WHATEVER PRICE THEY WANT. If you are a goldman sachs customer you will pay goldman's price for the stock.
Here is an Example:

1) Stock XYZ has an OTM long dec-jan call timespread selling for 0.10.
2) You buy the spread for 0.10
3) The spread goes in the money and the stock goes from borrowable to hard-to-borrow (this happened with GM and ALL OF THE MAJOR BANKS AND FINANCIAL INSTITUTIONS last year when the govt imposed short-selling restrictions).
4) You get assigned on the short leg.

NOTE WELL : YOU CAN GET ASSIGNED EVEN IF THE BID/ASK/LAST OF THE STOCK IS BELOW THE STRIKE. IN-THE-MONEY IS DETERMINED BY THE (UNKNOWN) BUY-IN PRICE, NOT THE MARKET PRICE.

5) to cover your short stock you exercise the long leg to cover your position. But wait -- you can't get the stock for another 3 days! Options settle T+1, Stocks settle T+3.
6) BECAUSE THE STOCK IS HARD-TO-BORROW (or impossible to borrow) your clearing firm BUYS YOU IN at whatever price they feel like charging to cover the front leg.

The stock does not have to be hard to borrow when you place your opening order. The risk is, that the stock has a corporate event that changes its status from easy-to-borrow to hard-to-borrow or worse.
BUY IN RISK CAN BE A GREATER RISK THAN DIVIDEND RISK WHEN BUYING OR SELLING LISTED OPTIONS SPREADS
What can you do to eliminate this risk?
NOTHING
What can you do to minimize this risk?
LOOK AT THE PUTS. The put price will give you an idea as to the implied risk in the position. If the puts are trading above parity with the calls (a reversal for a credit) THIS IS A VERY DANGEROUS SIGNAL.
If you own the underlying consider liquidating all or part of the position.

If you own the spread look at ways to liquidate even if it means selling the spread for zero.
If you are tempted to buy the reversal DON'T. I know personally several traders who have lost close to 1 million dollars in aggregate doing this. This includes very sharp hedge fund managers with years of experience trading for very large firms. The major banks lost 40 billion dollars of their TARP money doing this with porsche and volkswagen last year. THE REWARD DOES NOT COMPENSATE YOU FOR THE RISK.
Sometimes there is no warning to buy-in risk or an undeclared special dividend. Earlier this year VALE declared a special 22 dollar per share special dividend with an ex-dividend date of NOW. The announcement happened AFTER THE CLOSE. If you had a 20 lot call butterfly and were assigned on the center legs the liability is 2200 x 40 or $88000- just for this 20 lot bfly. This happened to one of our customers who was long the spread and fortunately, he was not assigned on the legs. The assignment gods were being nice that day but it was a close call.
How to eliminate this risk:
You can't.
How to minimize this risk:
Avoid call spreads in issues that tend to pay large special dividends, e.g. mining trusts
Consider substituting put spreads for call spreads if this is possible, at a good price
Dr. D

Ri$k Doctor

IMPORTANT TOPIC - BUY-IN RISK

« **Reply #1 on:** September 17, 2009, 08:44:07 AM »

Wow. Thanks Dr. Dave.

ryandbaird

UNG

« **on:** August 26, 2009, 11:38:12 AM »

Does anyone know why they are handing out reversals in the UNG front month?

Ri$k Doctor

UNG

« **Reply #1 on:** August 27, 2009, 05:41:38 AM »

Might be hard to borrow the stock to short. Have you checked into that? Otherwise, some ETFs are notorious for surprise special dividends.

UNG US NAT GAS FD ETF ETB B: 11.47 A: 11.48 **11.48** -.13 -1.12

UNDERLYING

Last X	Net Chng	Bid X	Ask X	Size	Volume	Open	High	Low
11.48 J	-.13	11.47 Q	11.48 I	102 x 120	2,576,503	11.48	11.64	11.46

TRADE GRID Symbols

OPTIONS Spread: Single Layout: Mark, Volume Exchange: Composite Strikes: 7

CALLS Mark	Volume	Bid X	Ask X	Exp	Strike	PUTS Bid X	Ask X	Mark	Volume
SEP 09 (22) 100									64.54%
3.50	0	3.40 C	3.60 I	SEP 09	8	0 X	.05 C	.025	0
2.50	0	2.45 N	2.55 I	SEP 09	9	0 B	.10 C	.05	127
1.575	20	1.55 I	1.60 N	SEP 09	10	.15 I	.20 X	.175	207
.85	76	.80 I	.90 I	SEP 09	11	.45 C	.50 C	.475	3,002
.425	304	.40 X	.45 I	SEP 09	12	1.00 I	1.05 C	1.025	202
.225	233	.20 C	.25 I	SEP 09	13	1.75 I	1.85 I	1.80	0
.125	106	.10 X	.15 I	SEP 09	14	2.70 X	2.80 C	2.75	0
OCT 09 (50) 100									72.40%
3.50	0	3.40 C	3.60 C	OCT 09	8	.10 C	.15 C	.125	0
2.60	0	2.50 C	2.70 I	OCT 09	9	.20 C	.30 C	.25	10
1.80	27	1.75 I	1.85 I	OCT 09	10	.50 I	.55 I	.525	81
1.225	520	1.20 X	1.25 C	OCT 09	11	.90 C	.95 N	.925	78
.775	130	.75 I	.80 X	OCT 09	12	1.50 X	1.55 I	1.525	0
.525	18	.50 I	.55 C	OCT 09	13	2.20 C	2.30 I	2.25	0
.375	33	.35 I	.40 C	OCT 09	14	3.00 C	3.10 N	3.05	0

Ri$k Doctor

UNG

« **Reply #2 on:** September 03, 2009, 08:37:58 AM »

Lastest in UNG:

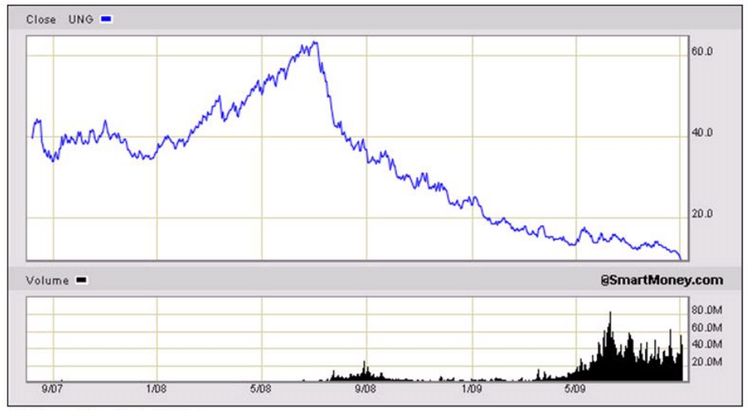
TRADECRAFT by Jonathan Hoenig (Author Archive) Published September 3, 2009 | A A A

Save Our Speculators!

THE SPECULATIVE SMACKDOWN continues.

As we pointed out a **few weeks back**, the growth of many commodity funds such as **U.S. Natural Gas Fund** (**UNG**: **9.20*, -0.25, -2.64%**) and **iPath Natural Gas ETN** (**GAZ**: **12.33*, -0.17, -1.36%**) has occurred at a time when prices for the commodity they track have plummeted. Despite massive new investment in recent months, natural gas has now dropped to the lowest level in more than seven years.

Damn Speculators!



U.S. Natural Gas Fund (UNG) - 2 years

That hasn't stopped regulators from disrupting free trade. Earlier this week, PowerShares DB Crude Oil Double Long ETN, a popular note that provides twice the daily return of oil prices, **announced** it was liquidating altogether as a result of more stringent government regulations specifically designed to limit **speculation**. The honest, law-abiding investors who had included the fund as part of their strategy are now out of luck. Are speculators responsible for volatility in energy prices? If the government outlawed futures trading or speculation on energy altogether, would prices settle into a low, calm and politically palatable range?

Putting aside the **moral** argument -- that energy, be it natural gas, oil, coal or gasoline, is privately owned, and that an individual or group of individuals has every legal right to buy or sell as much as they please -- the fact is that speculative futures markets don't create volatility, they reduce it.

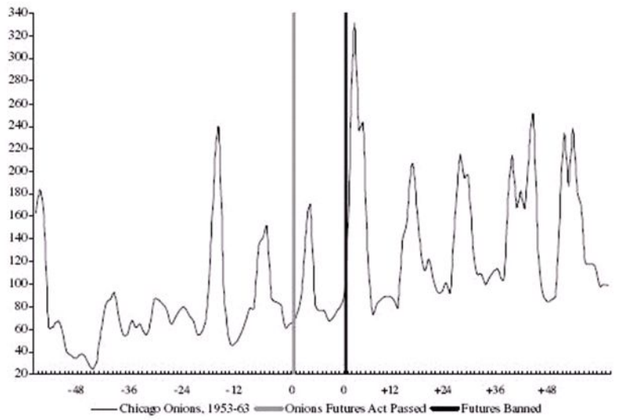
That's not an assumption on my part, but demonstrated by the hard data surrounding another important commodity: onions.

In the late 1950s, farmers blamed falling onion prices on speculators at the **Chicago Mercantile Exchange**, where, at the time, an onion contract was actively traded. Isn't it funny how speculators are to blame whether prices are sinking or soaring?

In response to complaints from the powerful lobby, Republican Congressman Gerald Ford, who would go on to be our 38th president, pushed through the **Onion Futures Act**. So in 1958, futures trading in onions was banned, because "speculative activity in the futures market causes such severe and unwarranted fluctuations in the price of cash onions" that "a complete prohibition of union futures trading" was needed "in order to assure the orderly flow of onions in interstate commerce." Still on the books to this day, it remains the only ban on trading of a specific commodity in United States history.

In the years that followed numerous studies demonstrated onion prices were actually more volatile after the ban was passed than during the period in which onion futures were traded.

A Wild Ride



*Source: David S. Jacks, "**Populists Versus Theorists: Futures Markets and the Volatility of Prices**"*

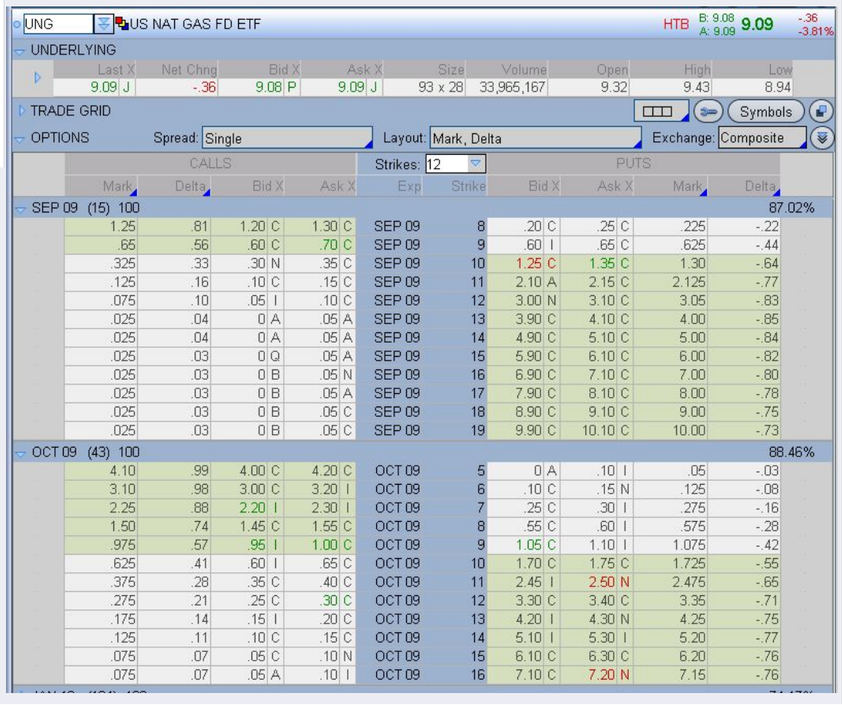
Recent history confirms the pattern. According to the **Wall Street Journal**, onion prices climbed more than 430% from October 2006 through April 2007, before crashing 92% by October. During this volatile period for all commodities, onion prices were demonstrably more volatile than corn, wheat or oil, despite the lack of a futures market.

It's a point that was reinforced by none other than Joseph Dial, a commissioner for the Commodities Futures Trading Commission (CFTC), who, in 1997, observed that economists "found more cash market volatility in onion prices before and after the period of futures trading than there was while the onion futures market was operating. In other words, futures markets don't cause volatility -- they respond to and **decrease volatility**."

Prices rise and fall based on supply and demand, regardless of whether politicians ban futures trading. As the assault on speculators, such as we've already seen with U.S. Natural Gas Fund and **PowerShares DB Crude Oil Double Long ETN** (**DXO**: **4.10*, +0.03, +0.73%**) continues, investors will simply migrate to unlisted products or offshore exchanges, which helps no one. Outlawing speculation altogether, as was done in the case of onions, won't eliminate volatility, but exacerbate it. When will Washington learn?

Jonathan Hoenig is managing member at Capitalistpig Hedge Fund LLC.

Reversals still available for Credits if you can borrow the stock.



Ri$k Doctor

AUG SPY
« **on:** July 12, 2009, 08:42:18 PM »

From an RDCCer Email:
Hey Charles and All,
I'm looking for AUG SPY opportunities and I??m thinking 1/5/4 style butterfly. I wanted to get the group??s opinion about this trade and possible pit falls Here are the position details:

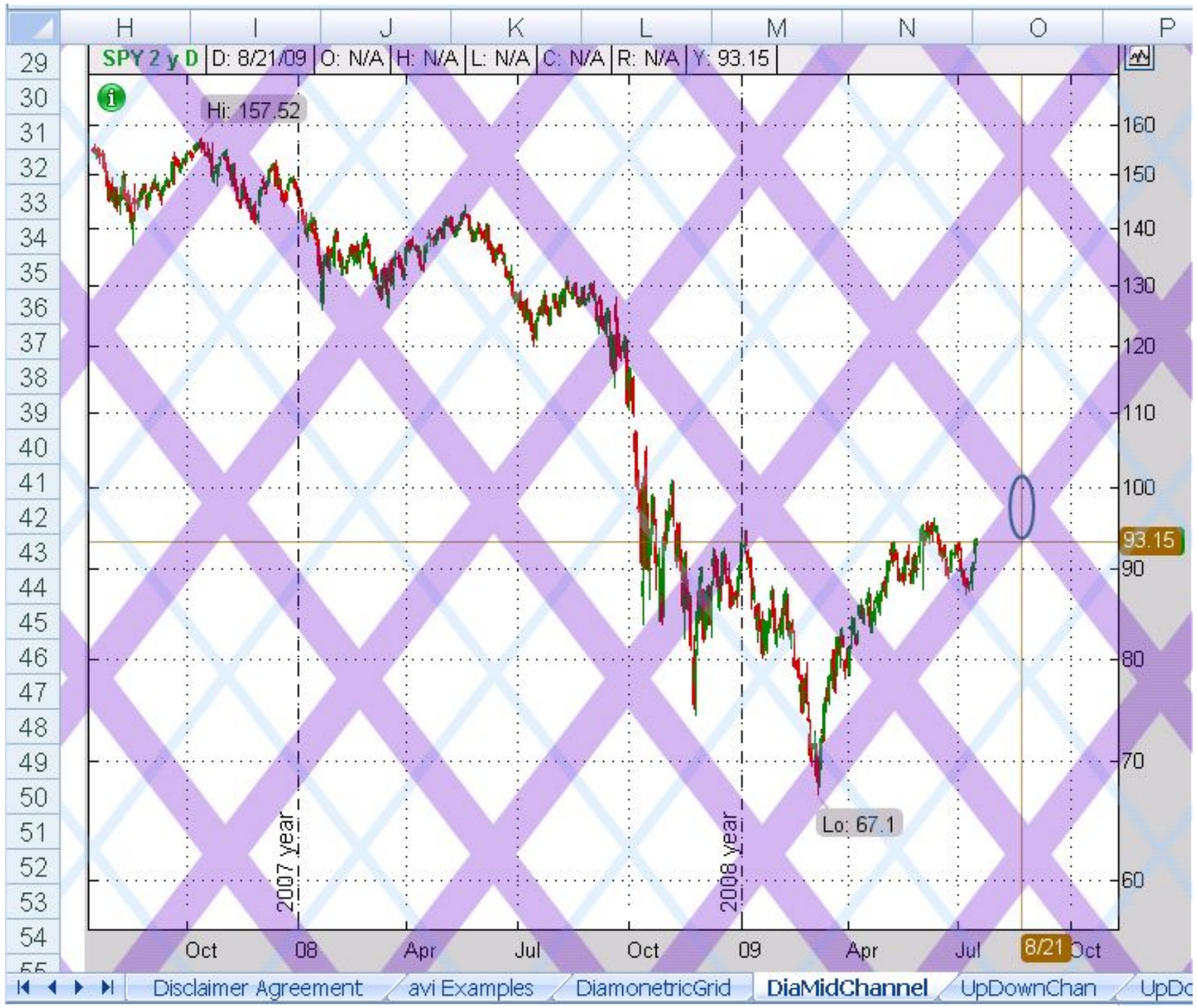
Ri$k Doctor

AUG SPY
« **Reply #1 on:** July 14, 2009, 08:19:59 AM »

Personally, I would rather have a greater distance between my closest long and the short strike so that I had a greater possibility of profit.

Ri$k Doctor

AUG SPY
« **Reply #2 on:** July 16, 2009, 08:56:58 AM »



$eaTrader

AUG SPY
« **Reply #3 on:** July 19, 2009, 08:21:45 PM »

For this trade I??m looking for the SPY to get up to around 95ish and then pull back.

Action Plan:
?? If the SPY > 96.50 Then Sell the [96/100] Put Vertical for ~ $2.30 accepting a $180 loss on the position if SPY keeps going up. ?? If the SPY < 96.50 Then close position the Wednesday of Expiration

Enter 2 Adjacent Ks in Cells B32 & B33	$1 Initial Position		Adjustment 1	
	14-Jul			
Net Units				
Underlying Units				
Strikes (Ks)	Calls	Puts	Calls	Puts
70				
71				
72				
73				
74				
75				
76				
77				
78				
79				
80				
81				
82				
83				
84				
85				
86				
87				
88				
89				
90				
91				
92				
93				
94				
95	2			
96	(5)			
97				
98				
99				
100	3			
101				

$eaTrader

Ri$k Doctor

AUG SPY
« **Reply #4 on:** July 22, 2009, 02:09:22 AM »

Was this done for only $1 credt or did you mean $100 or $200 total?

Ri$k Doctor

AUG SPY
« **Reply #5 on:** July 22, 2009, 02:09:37 AM »

Was this done for only $1 credit or did you mean $100 or $200 total?

$eaTrader

AUG SPY
« **Reply #6 on:** July 22, 2009, 05:46:49 PM »

I just realized I had the numbers wrong. I was filled for $1.33 credit or $133 total, on July 15th. But when I submitted the order the night of July 14th $1.08 was five cents off the mid price.

$eaTrader

Ri$k Doctor

AUG SPY
« **Reply #7 on:** July 23, 2009, 09:33:26 AM »

OK then what gets entered is $216. I will upload a corrected version and a dissection when I get a good enough connection to upload. In the meantime, perhaps you would like to try a dissection and email it to me?

$eaTrader

AUG SPY
« **Reply #8 on:** July 26, 2009, 07:44:49 AM »

I'm looking forward to getting your feedback on recent updates to the AUG SPY Trade:

Enter 2 Adjacent Ks in Cells B32 & B33	($1.33)	($2.18)	($4)
	Initial Position	Adjustment 1	Post Adjustment
	14-Jul	23-Jul	23-Jul
Net Units			3
Underlying Units			

Strikes (Ks)	Calls	Puts	Calls	Puts	Calls	Puts
70						
71						
72						
73						
74						
75						
76						
77						
78						
79						
80						
81						
82						
83						
84						
85						
86						
87						
88						
89						
90						
91						
92						
93						
94						
95	2				2	
96	(5)			3	(5)	3
97						
98						
99						
100	3			(3)	3	
101						
102						

PivotK 98 | Month Aug | Inc Adj y

Raw Position

nC	rC	Adj	Cur	K	Cur	Adj	rP	nP	K
				70					70
				71					71
				72					72
				73					73
				74					74
				75					75
				76					76
				77					77
				78					78
				79					79
				80					80
				81					81
				82					82
				83					83
				84					84
				85					85
				86					86
				87					87
				88					88
				89					89
				90					90
				91					91
				92					92
				93					93
				94					94
	2		2	95				2	95
	(5)		(5)	96		3	3	(2)	96
				97					97
				98					98
				99					99
	3		3	100		(3)	(3)		100
				101					101
				102					102

Butterfly Dissector

Bfly1	Bfly2	Bfly3	K
			70
			71
			72
			73
			74
			75
			76
			77
			78
			79
			80
			81
			82
			83
			84
			85
			86
			87
			88
			89
			90
			91
			92
			93
			94
			95
			96
			97
			98
			99
			100
			101
			102

PivotK 98 | Aug

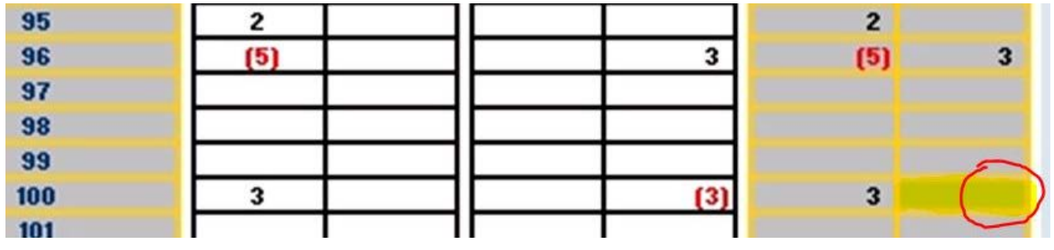
Work Sheet

C	K	P
	70	
	71	
	72	
	73	
	74	
	75	
	76	
	77	
	78	
	79	
	80	
	81	
	82	
	83	
	84	
	85	
	86	
	87	
	88	
	89	
	90	
	91	
	92	
	93	
	94	
	95	2
	96	(2)
	97	
	98	
	99	
	100	
	101	
	102	

Ri$k Doctor

AUG SPY
« **Reply #9 on:** July 27, 2009, 08:41:34 AM »

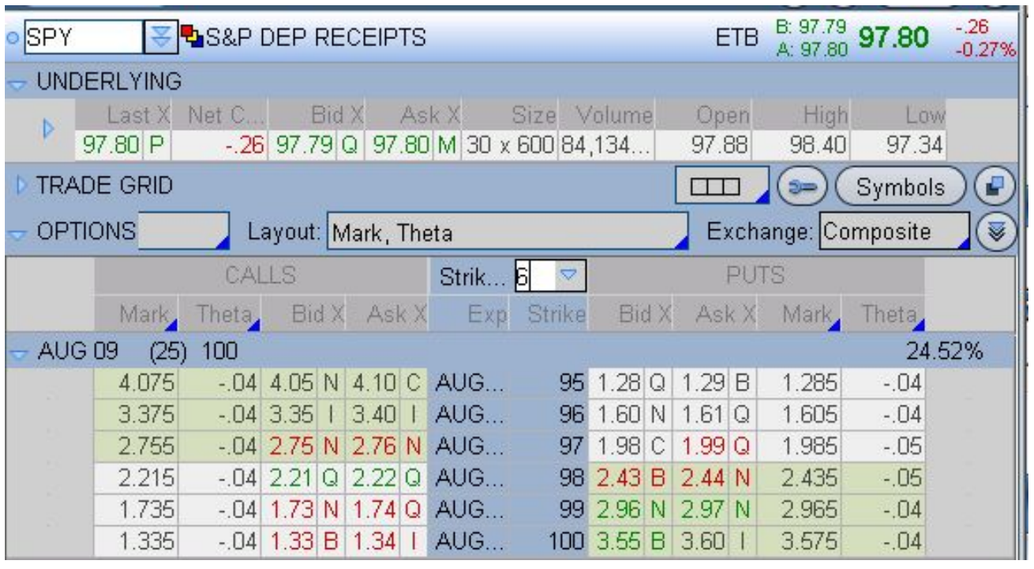
You have an error in your spreadsheet (Missing the 3 AUG 100 Puts) :



Should read (also: Total Credit is $872, not $4):

	B	D	E	G	H	J	K
2	Enter 2	$216		$656		$872	
4	Adjacent Ks in	Initial Position		Adjustment 1		Post Adjustment	
6	Cells B32 & B33	14-Jul		23-Jul		23-Jul	
8	Net Units						
10	Underlying Units						
12	Strikes (Ks)	Calls	Puts	Calls	Puts	Calls	Puts
33	94						
34	95	2				2	
35	96	(5)			3	(5)	3
36	97						
37	98						
38	99						
39	100	3			(3)	3	(3)

I think you know that you cannot win on this position, as the liability of the 3 short 96/100 boxes alone is $1200 and you have only collected $872. That is a locked in loss of $328 and you still have the 2 short 95/96 verticals, each going for .32 (potential liability of $200).:



Do you realize all this? If you are willing to risk the remaining $136 to make back a total of $64 (left to make), you can stay with it. However, to develop good trading habits for when you start to trade a larger size, you will want to have action points for liquidating for a loss from this point and for taking profits from this point forward. Where would you plave them? You may wish to butterfly off or slingshot the remaining vertical when you do. Also, I would ignore the box unless either of the 96 or 100 strike become a pin risk issue.

$eaTrader

AUG SPY
« **Reply #10 on:** July 29, 2009, 06:29:27 PM »

Hey Charles thanks for the great feedback, especially since you are on vacation.
QUOTE
I think you know that you cannot win on this position, as the liability of the 3 short 96/100 boxes alone is $1200 and you have only collected $872. That is a locked in loss of $328 and you still have the 2 short 95/96 verticals, each going for .32 (potential liability of $200).

In this case, I'm willing to accept the loss playing for my original thesis of having the SPY close below $95 by AUG expiration. I sold the 96/100 Put vertical to box off the trade to keep it from loosing more...Or that is my line of reasoning. In case my thesis began to work out, I have a resting order to by back the 96/100 put spread when the SPY goes slightly beyond my entry point @ about $95.25
QUOTE
However, to develop good trading habits for when you start to trade a larger size, you will want to have action points for liquidating for a loss from this point and for taking profits from this point forward. Where would you place them?

In this trade the "Loss Lock" or Liquidate point for SPY was $96.50. When I place the trade, I was betting that the SPY would hit a resistance of 95 and then pull-back. I see now, that I'm wrong on that!! Usually, I hold these trade to the last week before EXP. I see your point for playing a little wider so I can extract the babies much sooner than expiration, when the opportunity become available to take profits.

$eaTrader

Ri$k Doctor

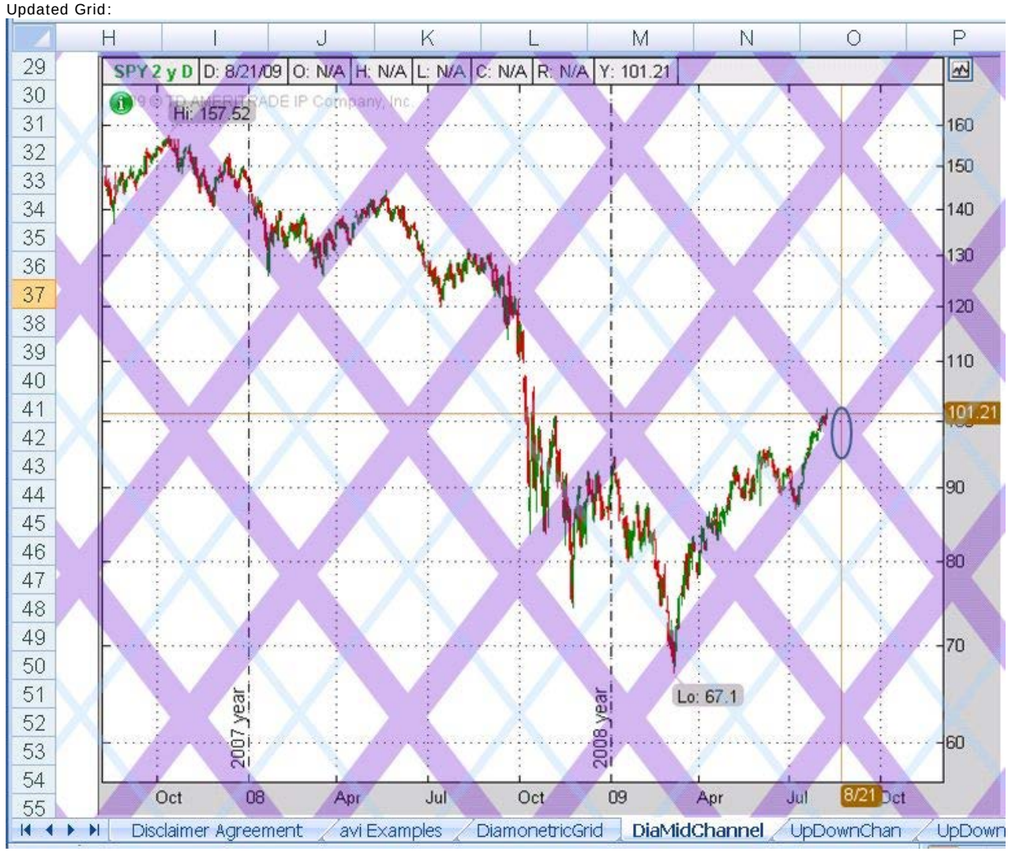
AUG SPY
« **Reply #11 on:** July 29, 2009, 11:26:49 PM »

Good. Understood.

Ri$k Doctor

AUG SPY
« **Reply #12 on:** August 09, 2009, 03:08:41 AM »

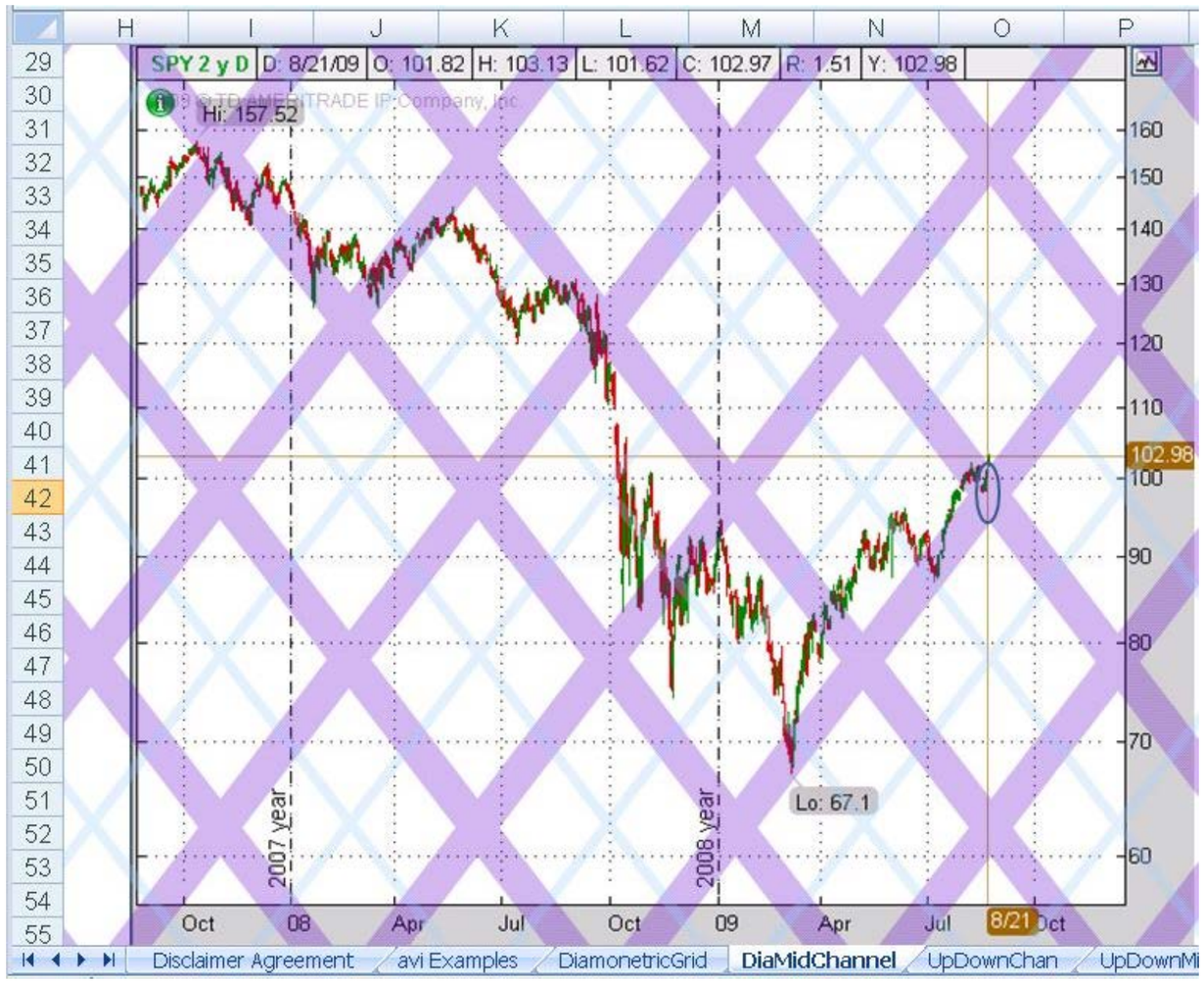
Updated Grid:



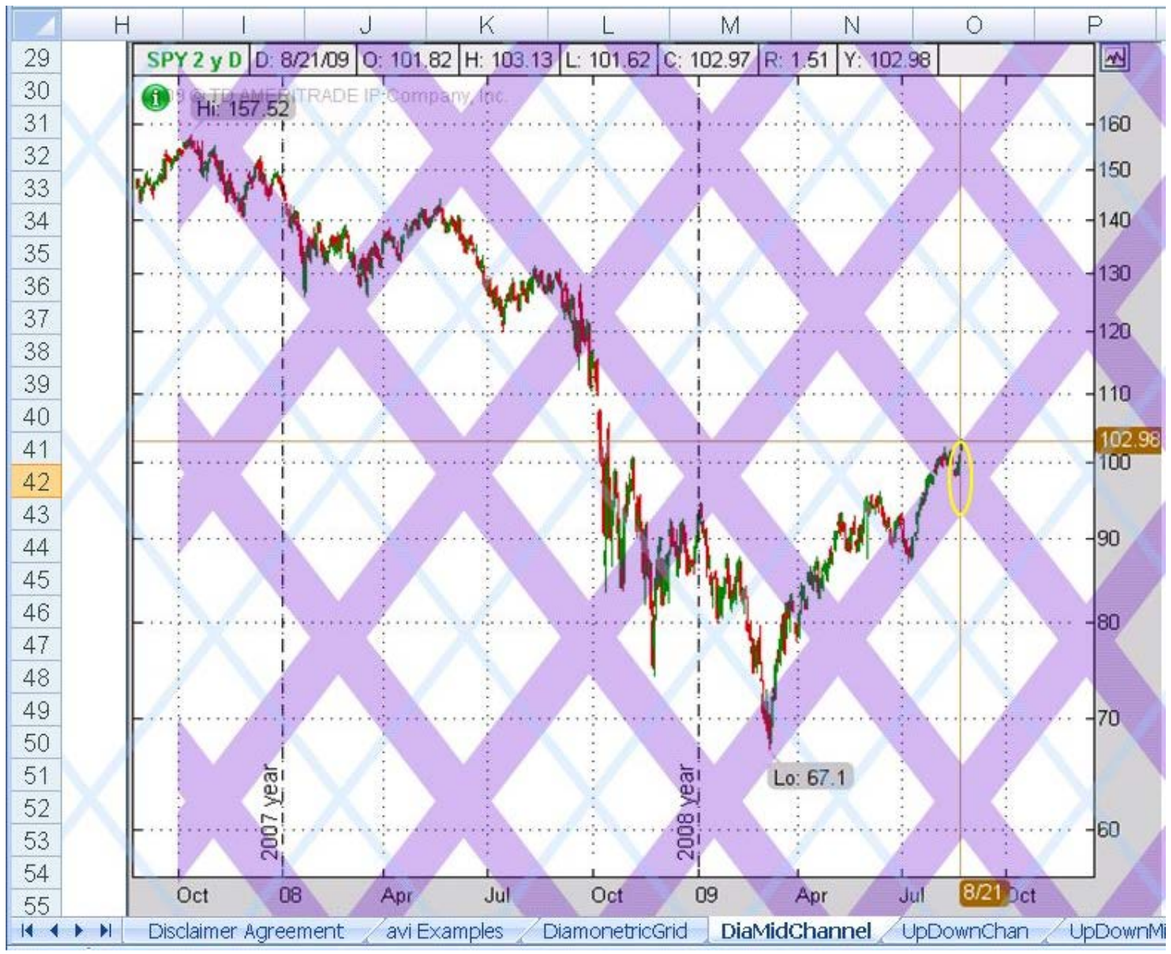
Ri$k Doctor

AUG SPY
« **Reply #13 on:** August 24, 2009, 03:53:46 AM »

Expiration Grid:



SPY seems to want to go higher according to the above Grid. If we widen the WickZones (which I really don't like to do) it seems as though SPY has had enough of a move up and should be heading down:



$eaTrader

AUG SPY
« **Reply #14 on:** August 24, 2009, 05:07:27 PM »

Diamonetrics called the expirations for SPY "Spot-on" 😎

$eaTrader

Ri$k Doctor
Administrator
Hero Member

AUG SPY
« **Reply #15 on:** August 25, 2009, 08:37:54 AM »

Direction was right but SPY closed just above the predicted range. Most would have been out by then I suppose but there you go.

Ri$k Doctor

The Wall Street White House

« **on:** July 06, 2009, 10:15:45 AM »

I think Obama is great and I voted for him but does anyone else get the feeling that when Barack took office he was met with some guys who said;
??This is the way it??s going to be Mr. Obama?? and part of your job is to go along with it.?
Here is good one from July 2, 2009 By ANDREW COCKBURN:

How Goldman Sachs and Citi Run the Show
The Wall Street White House

Robert Hormats, Vice Chairman of Goldman Sachs, is to be installed as Under Secretary of Economics, Business, and Agricultural Affairs. This comes as one more, probably unnecessary reminder of the total control exercised by Wall Street over the Obama administration??s economic and financial policy. True, Hormats is ??a talker rather than a decider? according to one former White House official, but he will find plenty of old friends used to making decisions, almost all of them uniformly disastrous for the U.S. and global economy.

Among the familiar Wall Street faces that Hormats will encounter in his new post will that of Deputy Secretary of State Jacob Lew, lately Chief Financial Officer of Citigroup Alternative Investments Group which lost $509 million in the first quarter of 2008 alone. On visits to the White House he is sure to bump into Michael Froman, who also tore a swath through the Citi balance sheet at the alternative investments shop (they specialized in ??esoteric? investments such as private highways) but is now Obama??s Deputy National Security Adviser for International Economic Affairs. If Froman is otherwise engaged, Hormats can interface with Froman??s deputy, David Lipton, who was until recently running Citi??s global country risk management effort.

Citigroup is also well represented at Treasury, in the form of Lewis Alexander, formerly the bank??s chief economist and now Counselor to Treasury Secretary Timothy Geithner. Given the role played by all of the above in bankrupting us all, Alexander??s 2007 verdict on the onset of the mortgage crash, ??I think that??s not going to spill more broadly into the economy and so I think we??re going to have a normal kind of housing cycle though the middle of this year,? can only have been a recommendation in the eyes of his current employer.

Alexander??s function at Citi may have been merely to endorse the financial depredations of colleagues with economic blather, rather than exercise loss-making functions personally. Not so Deputy Treasury Secretary Neal Wolin, who has moved over to the number two job at the department from the Hartford Insurance Company, where he served as president and chief operating officer of the Property and Casualty Group. Hartford was one of the insurance companies that got suckered by the banks into backing their ruinous investments in real estate and other esoterica, but Wolin??s Treasury has just handed Hartford $3.4 billion of our money in the form of TARP funds.

Hormats?? agricultural responsibilities will of necessity bring him into frequent contact with the Chairman of the Commodity Futures Trading Commission, Gary Gensler ?? a former Goldman partner. As Assistant Secretary of Treasury in the Clinton Adminsitration Gensler played a key role in greasing the skids for the notorious Commodity Futures Modernization Act of 2000, which set the stage for the great credit default swaps scam that underpinned the recent bubble and subsequent collapse. News of the appointment did generate threats of obstruction in the Senate ?? any one of the senators could have blocked the appointment had they really wished to do so ?? but such threats proved predictably hollow. Had they been otherwise, Treasury Chief of Staff Mark Patterson could of course have lent the expertise he gained as Goldman??s lobbyist to overcome the obstacle.

For sheer gall it would be hard to equal the appointment of Gensler, one of the engineers of this catastrophe, but the administration has managed it with the selection of Linda Robertson, formerly a key Enron lobbyist and intimately involved in pushing through the commodity futures act as chief flack for the Federal Reserve. Prior to joining the crooked energy-trading firm, Robertson was an important figure in the Clinton Treasury Department, latterly serving her friend Larry Summers and before him Robert Rubin during their terms as Treasury Secretaries.

Such connection to the key enablers of our bankrupt casino helps explain many of the other hires listed above. Michael Froman was Chief of Staff to Robert Rubin at Treasury before following Rubin to his reward at Citigroup. Most significantly, it was Froman who first introduced Rubin to his Harvard classmate Barack Obama. David Lipton also served in the Rubin Treasury, as deputy under secretary for international affairs. Neal Wolin, on the other hand, appears to have more an acolyte of Summers, who cherished him as Treasury General Counsel from ??99 to ??01. Summers and Robertson were similarly close, and certainly he raised no objection to her fatal submissions on behalf of her paymasters at Enron.

Recent reports suggest that financial industry lobbying in Washington, at $104.7 million for the first three months of 2009, is 8% down on last year. But that is to be expected ?? why should Wall Street continue paying top dollar for a wholly owned subsidiary?

Andrew Cockburn writes about national security and related matters. His most recent book is Rumsfeld: His Rise, Fall and Catastrophic Legacy. He is the co-producer of American Casino, the feature documentary on the ongoing financial collapse. He can be reached at amcockburn@gmail.com.

$eaTrader

The Wall Street White House

« **Reply #1 on:** July 12, 2009, 08:48:22 PM »

I whole heartedly agree. The Obama administration seem to be distracted by health care to the point that they are starting to ignore Wall Street. Money and Politics go hand and hand.

$eaTrader

tsf

Calendar Butterfly vs. Regular Butterfly

« **on:** June 07, 2009, 03:14:28 PM »

Here are some of my thoughts about what, I guess, could be called calendar butterfly:

Regular butterfly starts to produce any decent theta close to expiration. Same time butterfly wings don't really act as a very potent hedge any more and P&L curve becomes steep. In a way butterfly acts like a naked straddle.
To make P&L curve smoother at the ends I though of using next month (or longer maturity) wings on a butterfly. Obviously one big change in this set up is positive vega. This set up should give higher theta though and I would imagine deltas should stay lower as well.

Has anyone had any experience trading butterflies this way? Or would it make sense just to have a regular time spread instead? Any other thoughts/comments?

Here is an example on RUT what I've been looking at:

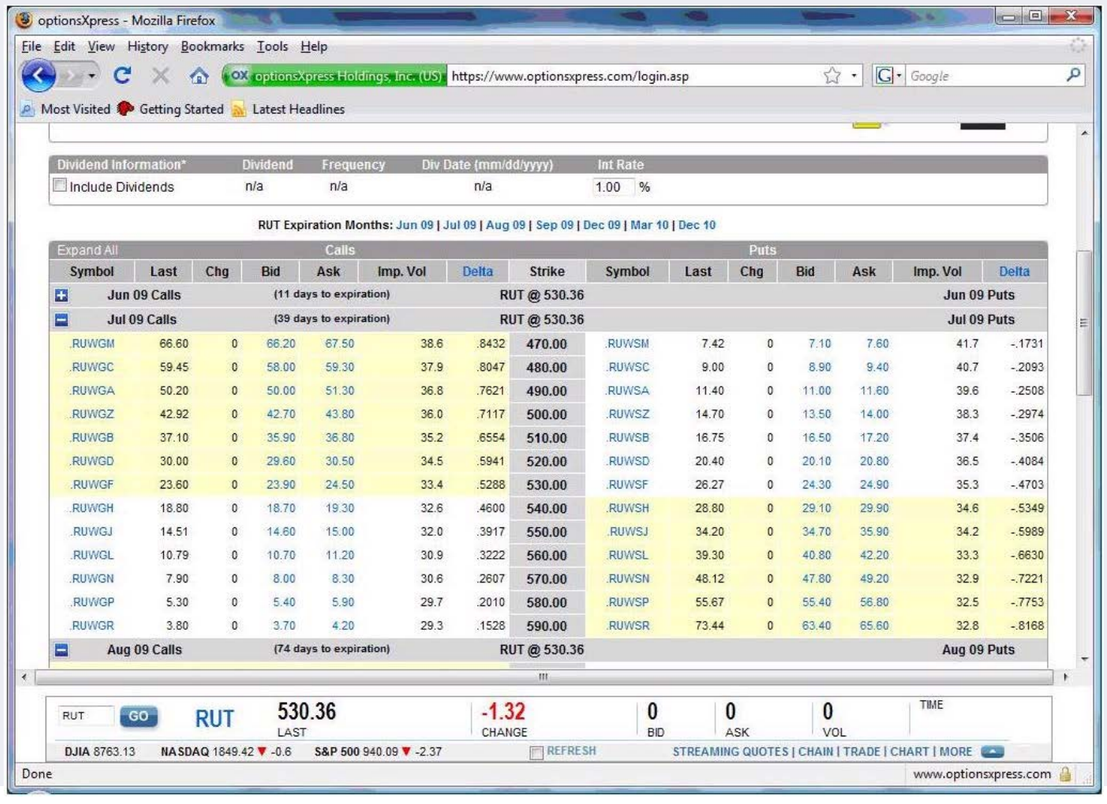
+3 RUT Aug 580C

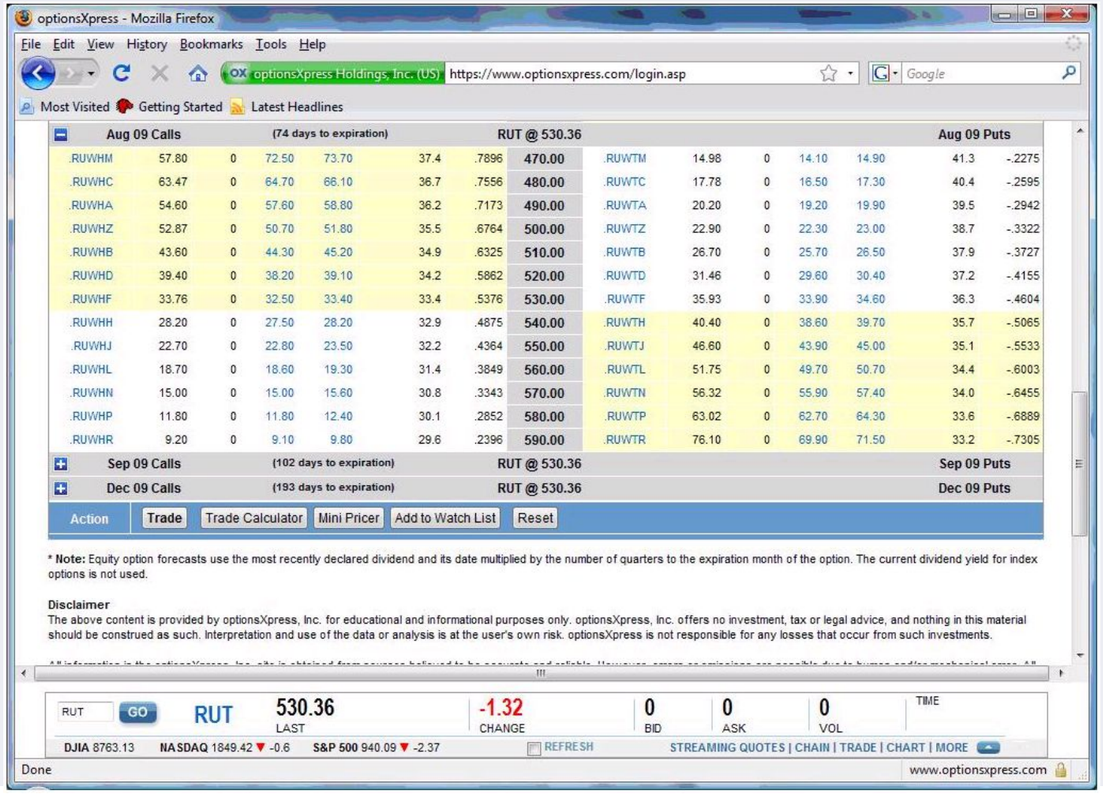
- 3 RUT Jul 530C

- 3 RUT Jul 530P

+ 3 RUT Aug 480P

I tried to do some position dissection as well, please see below. Is that correct way to dissect this position or any calendar positions? How can I track baby butterflies or is it even possible in this kind of calendar position?





	C	D	E	F	G	H	I	J	K	L	M	P	R	T
10							Calls			Puts				
11							120	Net Contracts						
12		PivotK	530									PivotK		
13	Month	july						Butterfly						
14		Raw Position						Dissector					WorkSheet	
15	nC	rC	K	rP	nP	K	Sum	Bfly1	Bfly2	Bfly3	K	C	K	P
43			490			490					490		490	
44			500			500					500		500	
45			510			510					510		510	(3)
46			520			520	3	3			520		520	
47	(3)	(3)	530	(3)	(3)	530	6	6			530		530	
48			540			540	3	3			540		540	
49			550			550					550	(3)	550	
50			560			560					560		560	
51			570			570					570		570	
52			580			580					580		580	
53			590			590					590		590	
54			600			600					600		600	
55			610			610					610		610	
56			620			620					620		620	
57			630								630		630	
58	(3)	(3)	Net	(3)	(3)	Net	12	12			Net	(3)	Net	(3)

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	C	D	E	F	G	H	I	J	K	L	M	P	R	T
58	(3)	(3)	Net	(3)	(3)	Net	12	12			Net	(3)	Net	(3)
59														
60		PivotK	530									PivotK	110	
61	Month	August						Butterfly				August		
62		Raw Position						Dissector				Work Sheet		
85			430			430					430		430	
86			440			440					440		440	
87			450			450					450		450	
88			460			460					460		460	
89			470			470					470		470	
90			480	3	3	480					480	3	480	
91			490			490					490		490	
92			500			500					500		500	
93			510			510					510		510	
94			520			520					520		520	
95			530			530					530		530	
96			540			540					540		540	
97			550			550					550		550	
98			560			560					560		560	
99			570			570					570		570	
100	3	3	580			580					580	3	580	
101			590			590					590		590	
102			600			600					600		600	
103			610			610					610		610	
104			620			620					620		620	
105			630			630					630		630	
106	3	3	Net	3	3	Net					Net	6	Net	

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Ri$k Doctor

Calendar Butterfly vs. Regular Butterfly

« **Reply #1 on:** June 08, 2009, 09:09:22 PM »

Yes, very popular spread when IV is near support to get long Vega, as you stated. This is otherwise known as a Double Diagonal or Straddle/Strangle Swap ot a Calendarized Iron Condor.

You would want to change your Pivot Strike as it is st at 110 in the second month and shows your 3 480 Puts as Calls in Column P, Row 90. Also something is going on in Cell I11 with 120 Net Calls (in error).

tsf

Calendar Butterfly vs. Regular Butterfly

« **Reply #2 on:** June 09, 2009, 07:41:28 PM »

I did the dissection below for the strangle, turning it into baby butterflies and a straddle. I wonder if this dissection makes any sense.

So, because of different expiration months, should I look at this as a straddle AND strangle rather than a butterfly?

	C	D	E	F	G	H	I	J	K	L	M	P	R	T	U	V	W	X
58			Net			Net	105	105			Net		Net		400			Ne
59															410			
60		PivotK	530									PivotK			420			
61	Month	August							Butterfly			August			430			
62		Raw Position							Dissector			Work Sheet			440			
63	nC	rC	K	rP	nP	K	Sum	Bfly1	Bfly2	Bfly3	K	C	K	P	450			K
82			400			400					400		400					400
83			410			410					410		410					410
84			420			420					420		420			Calendar Spread		420
85			430			430					430		430			Dissector		430
86			440			440					440		440			Month		440
87			450			450					450		450			C	P	450
88			460			460					460		460		220			460
89			470			470					470		470		230			470
90			480	3	3	480					480		480		240			480
91			490			490	3	3			490		490		250			490
92			500			500	6	6			500		500		260			500
93			510			510	9	9			510		510		270			510
94			520			520	12	12			520		520		280			520
95			530			530	15	15			530	3	530	3	290			530
96			540			540	12	12			540		540		300			540
97			550			550	9	9			550		550		310			550
98			560			560	6	6			560		560		320			560
99			570			570	3	3			570		570		330			570
100	3	3	580			580					580		580		340			580
101			590			590					590		590		350			590
102			600			600					600		600		360			600
103			610			610					610		610		370			610
104			620			620					620		620		380			620
105			630			630					630		630		390			630
106	3	3	Net	3	3	Net	75	75			Net	3	Net	3	400			Ne

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Ri$k Doctor

Calendar Butterfly vs. Regular Butterfly

« **Reply #3 on:** June 12, 2009, 02:11:32 PM »

QUOTE
I did the dissection below for the strangle, turning it into baby butterflies and a straddle. I wonder if this dissection makes any sense.

No I would not. Why complicate matters? If you only have a strangle then leave it that way.....but.....

QUOTE
So, because of different expiration months, should I look at this as a straddle AND strangle rather than a butterfly?

If you do have a straddle in another month and the strangle is s not worthless or the straddle is not too close to expiration, go ahead and dissect.

maca00

An Option Traders Career
« **on:** March 31, 2009, 06:05:44 PM »

Hello Charles,

I am a student studying engineering/commerce in Australia, and over the past couple of years while studying I have really become addicted to options trading. I have read your books and others, and I can really see myself doing this for the rest of my life.

Where would be a good start to pursue an options career? Pits, Big banks etc.
Continue studying? masters
Or have a crack with my own funds with some of my strategies?
Where would be an ideal place to be in 5, 10, 20 years?

I am really having second thoughts about an engineering career? I have even changed from management accounting to investment finance because I love these option tools so much.

Any career advice would be greatful.

regards,

Ben

Ri$k Doctor

An Option Traders Career
« **Reply #1 on:** June 09, 2009, 11:55:29 AM »

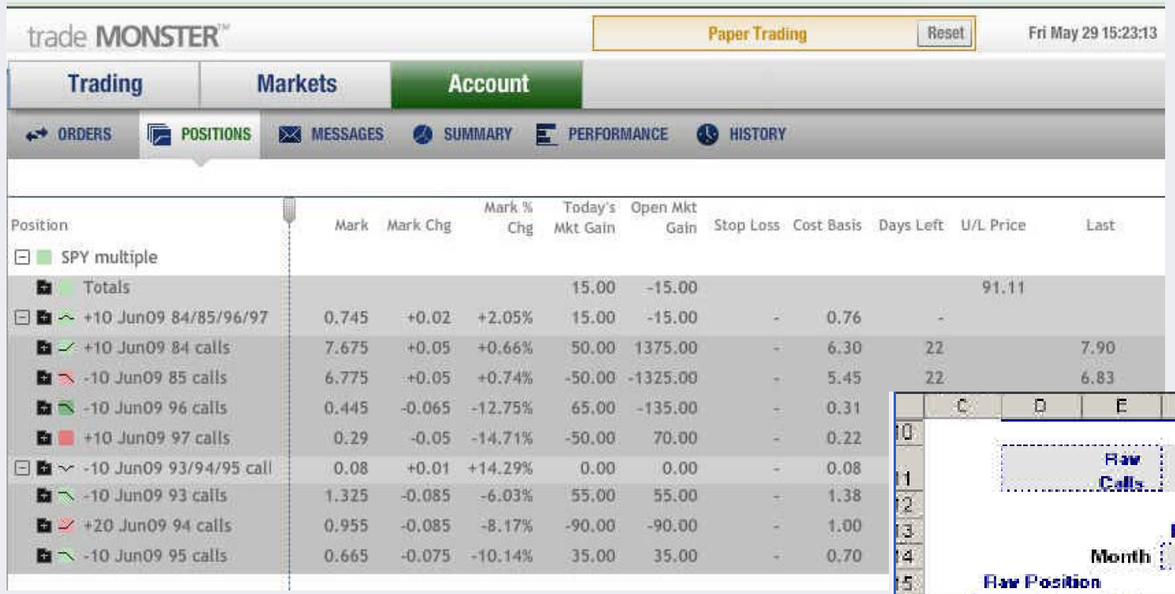
Sorry Ben, that I did not see your post until now. Believe it or not, a good place is the floor. I think Banks would be bad right now. Then there is always RiskDoctor.com--- when we discover your posts:) Please email me when you initiate a question and then click "Track this Topic" as will I and we will both get updates when a reply is poted.

howieg

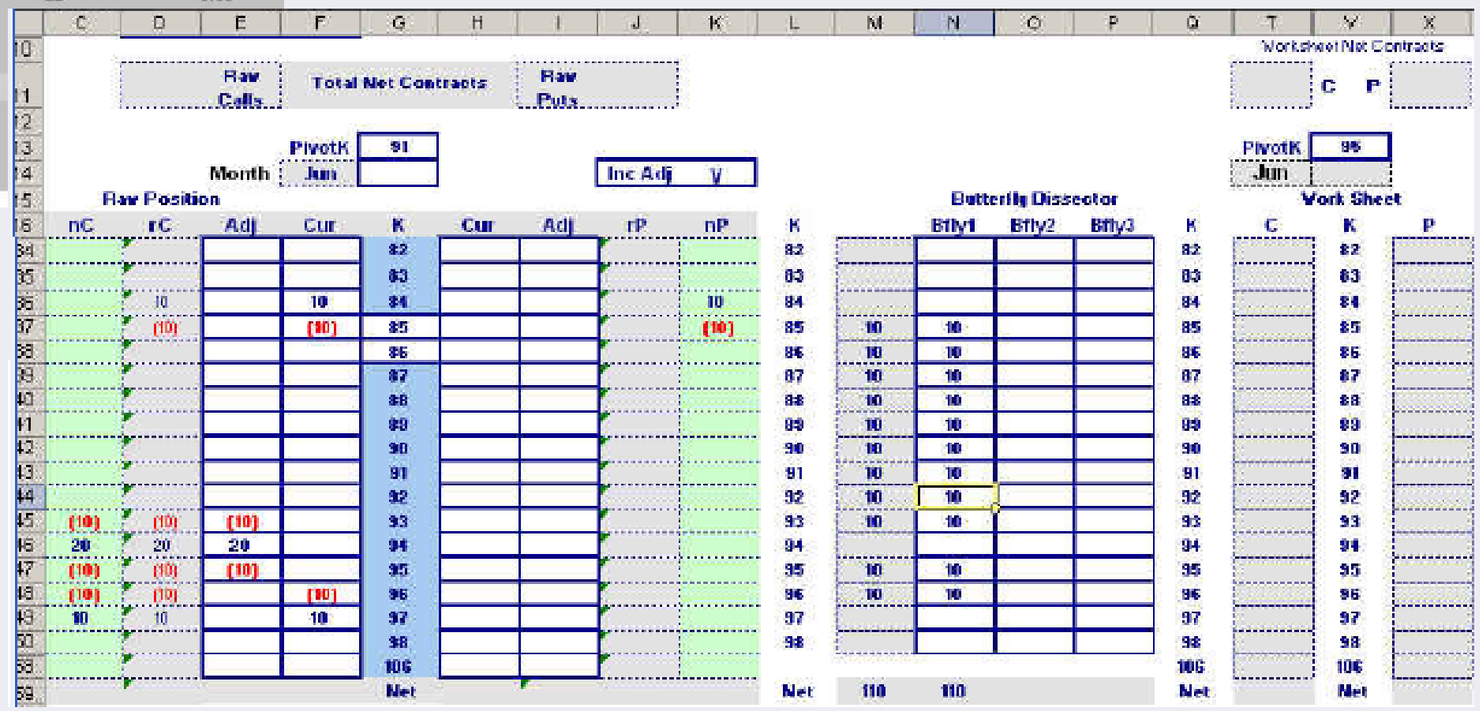
Playing with Baby Butterflies

« **on:** May 29, 2009, 12:50:55 PM »

I am really trying to get my head around these new ideas, so I decided that at least a paper trade was needed. So I setup two call vertical in SPY 10 JUN 84/85/96/97 so here is the trade, and sell of one of the babies followed by my Pos.Disector
comments please.. howie



Position	Mark	Mark Chg	Mark % Chg	Today's Mkt Gain	Open Mkt Gain	Stop Loss	Cost Basis	Days Left	U/L Price	Last
SPY multiple										
Totals				15.00	-15.00				91.11	
+10 Jun09 84/85/96/97	0.745	+0.02	+2.05%	15.00	-15.00	-	0.76	-		
+10 Jun09 84 calls	7.675	+0.05	+0.66%	50.00	1375.00	-	6.30	22		7.90
-10 Jun09 85 calls	6.775	+0.05	+0.74%	-50.00	-1325.00	-	5.45	22		6.83
-10 Jun09 96 calls	0.445	-0.065	-12.75%	65.00	-135.00	-	0.31			
+10 Jun09 97 calls	0.29	-0.05	-14.71%	-50.00	70.00	-	0.22			
-10 Jun09 93/94/95 call	0.08	+0.01	+14.29%	0.00	0.00	-	0.08			
-10 Jun09 93 calls	1.325	-0.085	-6.03%	55.00	55.00	-	1.38			
+20 Jun09 94 calls	0.955	-0.085	-8.17%	-90.00	-90.00	-	1.00			
-10 Jun09 95 calls	0.665	-0.075	-10.14%	35.00	35.00	-	0.70			

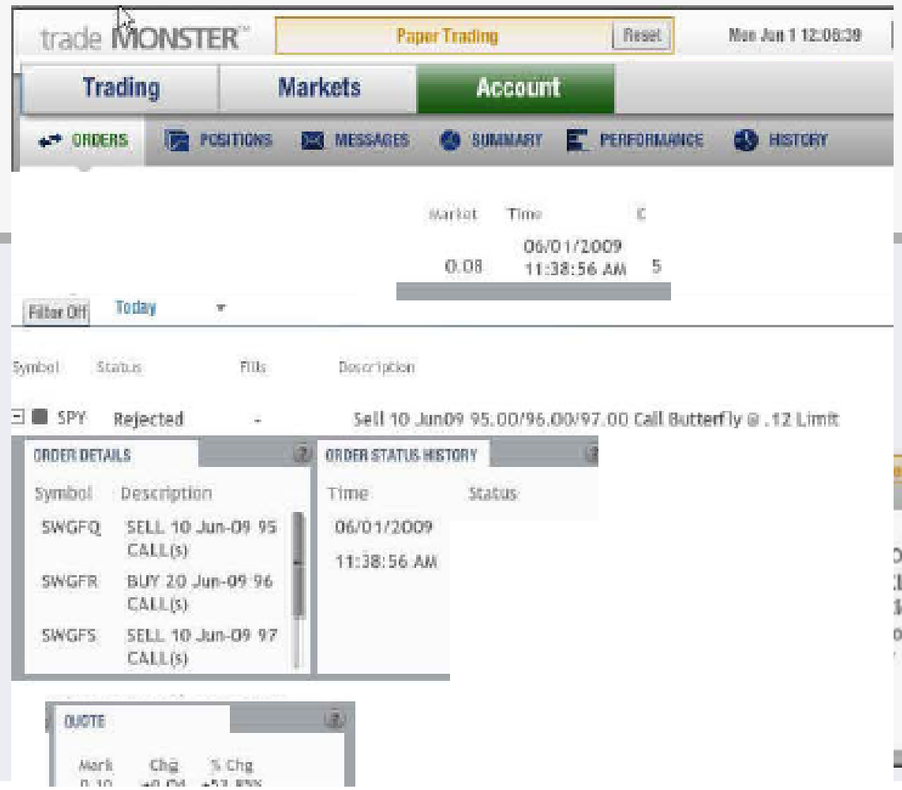


Ri$k Doctor

Playing with Baby Butterflies

« **Reply #1 on:** May 31, 2009, 09:14:01 AM »

All Correct Howie. Now Monitor the Baby Butterflies and begin harvesting as SPY visits the baby body strike and you can get a reasonable price. Also watch to cover your short verticals if they get too cheap or you can buy a naked option or vertical to build more possibilities:

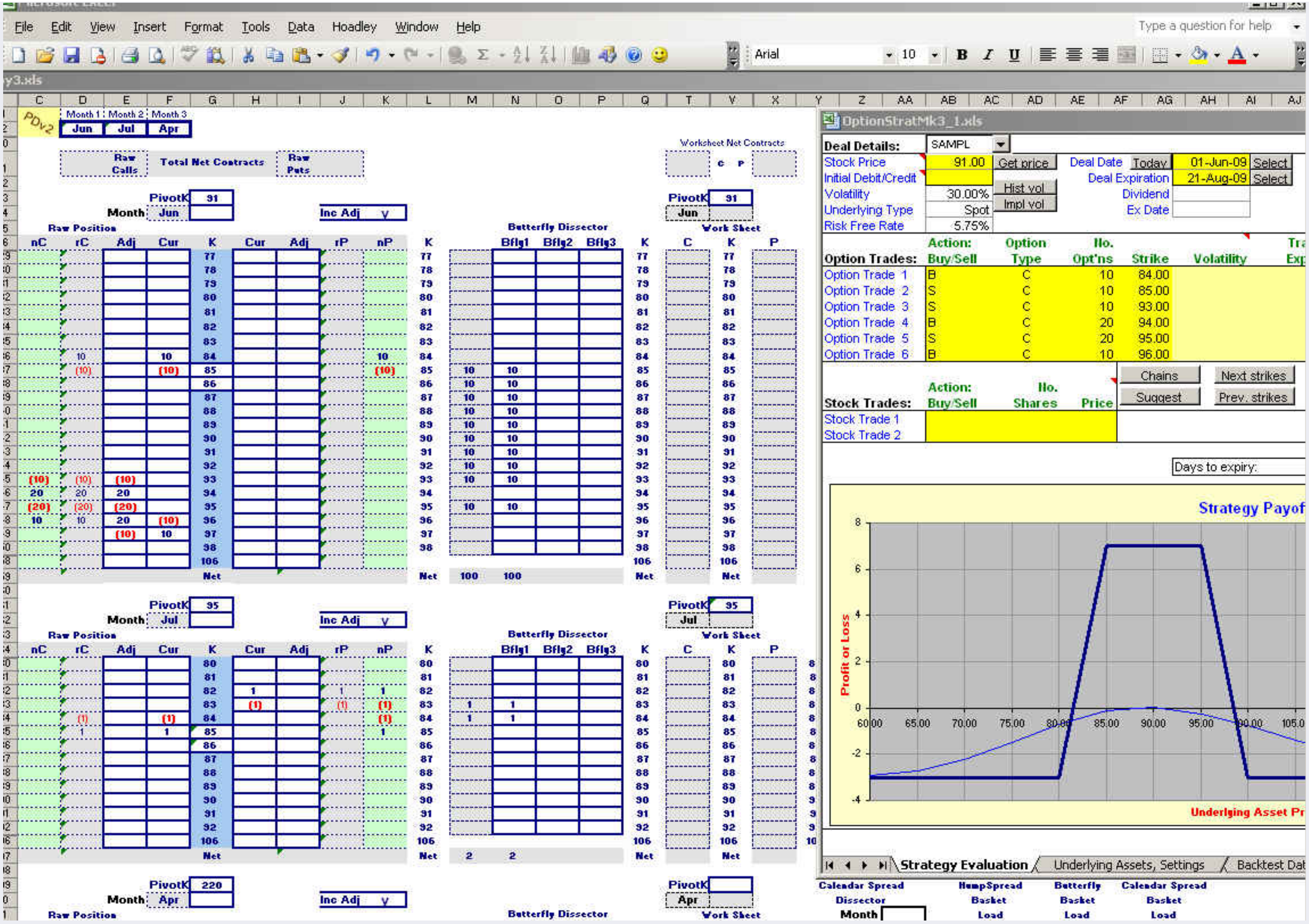


howieg

Playing with Baby Butterflies

« **Reply #2 on:** June 01, 2009, 08:11:35 AM »

Thanks,
But I think I am really missing something. Just to try this out, I tried to sell what would be the highest butterfly above (on excel). However I get this error, which makes me think I do not understand what it is I am doing, or the risk I am taking.


File Edit View Insert Format Tools Data Hoadley Window Help
Type a question for help
Arial 10
y3.xls
PDv2
Month 1 Month 2 Month 3
Jun Jul Apr
Raw Calls
Total Net Contracts
Raw Puts
Worksheet Net Contracts
C P
PivotK 91
Month Jun
Inc Adj y
Raw Position
Butterfly Dissector
Work Sheet
nC rC Adj Cur K Cur Adj rP nP K
Bflg1 Bflg2 Bflg3 K
C K P
Net
PivotK 95
Month Jul
PivotK 220
Month Apr
OptionStratMk3_1.xls
Deal Details: SAMPL
Stock Price 91.00 Get price
Initial Debit/Credit
Volatility 30.00% Hist vol
Underlying Type Spot Impl vol
Risk Free Rate 5.75%
Deal Date Today 01-Jun-09 Select
Deal Expiration 21-Aug-09 Select
Dividend
Ex Date
Option Trades: Action: Buy/Sell | Option Type | No. Opt'ns | Strike | Volatility
Option Trade 1 B C 10 84.00
Option Trade 2 S C 10 85.00
Option Trade 3 S C 10 93.00
Option Trade 4 B C 20 94.00
Option Trade 5 S C 20 95.00
Option Trade 6 B C 10 96.00
Stock Trades: Action: Buy/Sell | No. Shares | Price
Stock Trade 1
Stock Trade 2
Chains
Next strikes
Suggest
Prev. strikes
Days to expiry:
Strategy Payof
Profit or Loss
Underlying Asset Pr
Strategy Evaluation
Underlying Assets, Settings
Backtest Dat
Calendar Spread Dissector Month
HumpSpread Basket Load
Butterfly Basket Load
Calendar Spread Basket Load

Howie

Ri$k Doctor

Playing with Baby Butterflies

« **Reply #3 on:** June 01, 2009, 11:11:01 AM »

Hi Howie,
I think you aare getting the error because half of the 20 that you are trying to buy are opening trades. You r order says that you are buying them to close:

Buy 20 SWGFR Contract(s) DAY to Close

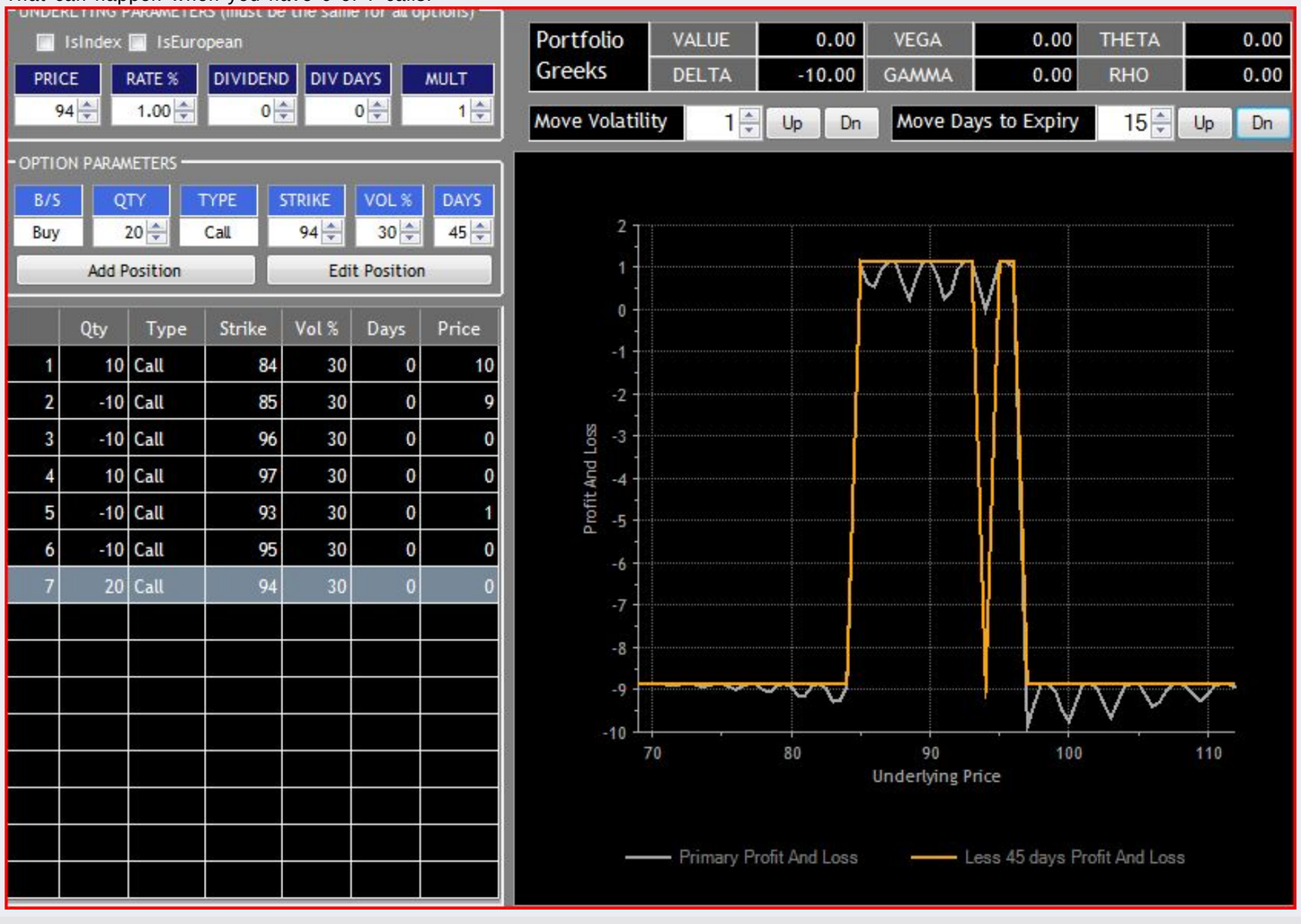
TradeMonster adheres to the letter of the law on this where TOS is aggressive and allows such trades without identifying whether the trades are opening or closing. So far they have been getting away with it for 7 years and perhaps statute of limitations is running out.
BTW: I would not sell that at the market like that when it is .08 bid at .12 (in a real trade). I would try .10 but because this is a paper trade then it's OK because otherwise it will not fill.

Also, that Hockeystick does not look right. Should be a dip where the missing long butterfly is at 94. Also it should not be gaining value from 100, going down, but from 96.

Playing with Baby Butterflies

« **Reply #4 on:** June 01, 2009, 05:20:31 PM »

Woops!
That can happen when you have 6 of 7 calls.



Pauleoh

hedging a long position

« **on:** May 05, 2009, 04:39:25 PM »

Hi Charles,

In Australia, when a dividend is paid, individuals are entitled to a tax credit for the amount of tax already paid by the company. This, in effect, counteracts what would otherwise be double taxation on the same income.

The rule about hedging a long stock position states that you must have 30% of the position exposed - therefore you can only hedge through options to a maximum of delta 70 when the hedge is initiated (the tax department is not concerned with how your delta moves after your hedge is initiated).

For someone who is long stock, purely to get the dividend, what would you suggest would be the best delta 70 strategy to hedge the long?

thanks
Paul

Ri$k Doctor

hedging a long position

« **Reply #1 on:** May 06, 2009, 07:26:36 AM »

You have a lot of choices base upon your appetite for risk. The usual choices:

Covered Write (Not Really a 'Hedge' but an income enhancer) by selling a Call. If the Call Strike is in-the-money, it cannot have a delta greater than .70 and it will cause the remaining position to behave like that same Strike's (out-of-the-money) Put (Short).

Married Put by purchasing a protective Put. If the Put Strike is in-the-money (higher than the underlying price), it cannot have a delta greater than .70 and it will cause the remaining position to behave like that same Strike's (out-of-the-money) Call (Long).

Collar by purchasing a protective Put and by selling a Call to help pay for that Put. Usually this is done by selling out-of-the-money (OTM) Calls and Puts and as long as the absolute value sum of the Call and Put stay at .70 deltas or lower when initiated, you will be complying with the law. The remaining position will behave like a Bull Vertical Spread. It is popular to choose Calls and Puts that are about the same distance from 'the money' (underlying price) because the call often has the same price of the put creating a 'zero cost collar' hedge. Varying the distances of the strikes will have the effect of changing the risk reward from that point on*. For example, the resulting position's destiny will be risking either;

a) Risking Less to make More like a cheap OTM Call Bull Vertical Spread,
b) Risking the same amount money to make the same like a Zero Cost Collar.
c) Risking More to make Less like a short OTM Put Bull Vertical Spread.

Not really well-known but very popular.
SlingshotHedge (Many Variations) by purchasing a number of OTM Puts and selling at number of OTM Call verticals to Pay for the Puts. Choose Strikes where the overall Delta remains at .70 or lower.**

*Chapter 5 pages 125-127

See "Slingshot" The Movie in the Free Bonus Features area of RiskDoctor Archives at Vimeo.com