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		Time Butterfly	alassio		February 26, 2009, 03:28:52 PM by Ri\$k Doctor
		slingshot hedge	noam_a		February 22, 2009, 05:27:03 AM by noam_a
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		Dissecting Americans	vesc		February 05, 2009, 09:45:54 AM by Ri\$k Doctor
		Scale Trading with Options	loleczek		January 29, 2009, 01:54:53 PM by Ri\$k Doctor
		Hedging a Ratio Back (LongMore) Spread	volramp		January 27, 2009, 08:41:43 PM by Ri\$k Doctor
		Dissecting in steps	vesc		January 27, 2009, 08:14:40 PM by Ri\$k Doctor
		Collar vs Vertical, Excerpts from a Guru's Forum	Cyrus		January 18, 2009, 11:17:47 AM by Ri\$k Doctor
		Mystery Options Strategy	aguison		January 15, 2009, 01:36:40 PM by rhammer
		"I Want My Bailout Money"	Ri\$k Doctor		January 12, 2009, 12:46:06 PM by Ri\$k Doctor
		IBKR - Adjust into Bull spread	Chrislambert		November 28, 2008, 01:48:33 PM by Chrislambert



trademark

Delta adjustment levels for short gamma spreads

« on: April 30, 2009, 08:13:08 AM »

Hi there,

I´ve been trading Wingspreads for some time now (mostly for IV - Plays) and derived my action points for adjustments via technical analysis. I´m relatively unhappy with this approach, not because my analysis fails, but it more or less leads to directional trading, at least for me.

My view on the market is, that price action is more or less random with pockets of nonrandom behaviour, so when I´m doing a directional trade with options, I have an entry, a stop and a target, which means, that as soon as my exit points are reached, I´m out of the trade. Also, I stay out of the market, when I don´t see an opportunity.

However, the idea behind a delta neutral wingspread is generating \$\$ via theta and that requires staying in the trade as long as possible. But that somehow messes with my hit and run approach on directional trades.

Recently I read some articles about IC´s and adjustment plans, which say that one "should short calls with 7-8 deltas, puts with 6-7 deltas and adjust the IC, whenever one of the short strike hits deltas of +/- 20 deltas".

I partially understand, that this is some kind of reverse gamma scalping, which is usually applied by model guys. I really don't want to tap into the field of trading model vs. reality which blows hedgefunds out of the water over and over again.

I also don´t think using hard numbers like I described above, is a sound approach, but I'm somewhat intrigued by the idea of the Greeks dictating the adjustments, so I can sit and wait for a nice directional adjustment opportunity based on TA/directional edge, while adjusting via statistical edge(stat_Vol vs. IV) in the case a directional trade does not show up.

My question here is: How do these guys come up with these numbers?? Why not adjust every +/-15 deltas or every 2 gammas??
As far as I know, also market maker develop bounderies for their Greeks (e.g. the whole inventory is supposed to have not more then x +/- deltas and not more then y short gammas), the question here is, how they develop those rules. I´m quite puzzled.
IMO it's relatively easy to set boundaries for long gamma scalping, as one for example can automatically hedge every 2 or 3 gammas, but for reverse gamma scalping this seems counterproductive as gammas are highest ATM where you have the break even or profit and become less OTM and if you apply the ""hedge every X gammas" the more open loss you have, the less often you hedge.
Charles, I know that you are trading with a view on price direction/range via Diamonetrics, but perhaps you have an answer to this..

Thank you

Ri\$k Doctor

Delta adjustment levels for short gamma spreads

« Reply #1 on: May 04, 2009, 09:11:09 AM »

Yes, your Iron would require adjustments as an alternative to liquidating and it would in effect be a negative gamma scalp at certain size intervals that would be according to:

1. Your particular size parameter adapted to the particulars of the market's behavior.
2. The desired evolution of the position structure. i.e.
 - a) BrokenWing addition/reduction of verticals.
 - b) Slingshotting via adding 'kickers'.

if your account can handle it, try temporarily using stock or futures inter-day and replacing at end of day with those verticals or

kickers. You should consider watching the RDCC Videos as this is what we practiced very often.

robcut1

options strategy please explain

« on: April 16, 2009, 06:43:26 AM »

If you look at 2 options, a put and a call. The trick is to identify how far each one needs to be out of the money so that movement in either direction would produce the same result. Success is based on the fact that your trade has a 50% chance of moving one way or another.

In fact, you want to pick a strike price so that when the commodity moves maybe 10% in one direction, your winning trade doubles, while your losing trade goes down by half. I also believe in placing the trades with the trend. To follow is an example:

Suppose you look at corn, and can buy a 330 put @ 6.7. Place one position. It will therefore cost you \$335.
Now, if you look at a 300 put and the 360 call, suppose the value will double or half if there is a move of 30 points in either direction (10%)

1) If the commodity moves in the "good" direction, you just made \$335. Cash out and take profits.

In the wrong direction you are down \$167.
Purchase a second position but leave on the first, this time in the "wrong" direction for the same cost \$335 as the original position.

One of two things will happen:

2a). The second position will double in value (go up \$670) while the original position loses another half (down to \$83)

If you cash out now you get back $670 + 83 = \$753$, while your cost was for 2 positions was \$670. (profit \$83)

or

2b). The second position loses half in value (down to \$167) while the original position goes back up to \$335.

Cash out at a loss of \$167.

Statistically for each event:

1) Make \$335 50% chance

2a) Make \$83 25% chance

2b) Lose \$167 25% chance

Looking at 100 events:

Should make \$16700 from 1)

Should make \$ 2075 from 2)

Should lose \$4175 from 3)

Of course you want to be in something that has a significant chance of movement in either direction.

Ri\$k Doctor

options strategy please explain

« Reply #1 on: April 23, 2009, 11:43:50 AM »

QUOTE

One of two things will happen:...

Good theory. But One of many, many, many things can happen and to list just a few;

1.) The move is to a point where the one does not double and the other does not go to quite half therefore you don't liquidate.

2.) Time goes by and both dwindle.

3.) IV drops and both dwindle.

etc.

QUOTE

...has a 50% chance... of moving one way or another. It is not like flipping a coin and what is missing is magnitude of the move in one direction or the other as well as how long it takes to get there.

MGB83 Rev/Con markets in hard-to-borrows

« on: April 01, 2009, 02:29:19 PM »

Hello Charles,

I have a question about reversal/conversion markets in extremely hard-to-borrow stocks - Citigroup being a notable example.

At one point about two weeks ago, the Jun09 5.00 reversal was going for about \$1.00, so customers were paying market-makers \$1 in order to get long stock and have market-makers get short stock until Jun09 expiration. This was when Citigroup was trading right around \$3. At the same time, the Jan2010 5.00 reversal/conversions were also right around \$1.00, trading at 0.98-0.99 I believe. However, the interesting thing was this - the Jan2010 2.50 line reversal/conversion was only trading about 0.77.

Why would it not have worked to convert on the Jan2010 2.50 line, paying 0.77, and then reverse on the Jun09 5.00 line and collect 1.00, to pocket the 0.23 difference? How do you think about the deltas of a reversal on this line? With the interest rate so negative, the call can become a punch when the put still has considerable value remaining. If I punch the call and get long stock, I am also synthetically selling the put...should I really think of this situation as having something like a 120 delta? 100 for the long stock and 20 for the short put?

The box markets line up about where we would expect, with the Jun09 box worth ~2.61 and the Jan2010 box worth about 2.71. The time spreads also line up, with the 2.5 line timespreads worth more than the more OTM 5 time spreads. The prices for each option are:

Stock - 3.02

Jun 2.5C/P - .835/1.200
Jun 5.0C/P - .275/3.250

Jan2010 2.5C/P - 1.205/1.455
Jan2010 5.0C/P - 0.620/3.580

	Stock			
	3.02			
Calls	JUN	Puts	Reversal	
0.835	2.5	1.20	0.885 Credit	
0.275	5	3.25	0.995 Credit	
	Box			
	2.61			
Calls	JAN	Puts	Reversal	
1.205	2.5	1.455	0.77 Credit	
0.62	5	3.58	0.98 Credit	
	Box			
	2.71			

JUN Options:

C+FY US 6 C2.50 \$ C .57 +.08 I .56/.57 40x407 EquityQRM									
As of Mar31 OpInt 488908 Vol 9,819 Op .53 P Hi .59 O Lo .52 O									
Time 12:00:00 Min Vol Price Range To White indicates new market information. USD									
Date 3/18 Price Range To Cond									
CITIGROUP INC PRICE .57 Cond									
Time	E	Bid/Trd/Ask	E	Size	Cond	Volatility	Und. Price		
11:59:57	O	.83/.84	O	514x76		95.59	3.02		
11:59:56	O	.83/.84	O	499x76		95.59	3.02		
11:59:48	O	.83/.84	O	452x76		95.59	3.02		
11:59:48	O	.83/.84	O	352x76		95.59	3.02		
11:59:47	O	.83/.84	O	381x76		95.59	3.02		
11:59:44	O	.83/.84	O	352x76		95.59	3.02		
11:59:44	O	1.84		50		97.60	3.02		
11:59:43	I	.83		33	ST	95.59	3.02		
11:59:39	O	.83/.84	O	352x126		95.59	3.02		
11:59:39	O	.83		25		95.59	3.02		
11:59:35	O	.83/.84	O	377x126		95.59	3.02		
11:59:31	O	.83/.84	O	477x126		95.59	3.02		
11:59:29	O	.83/.84	O	525x126		91.08	3.05		
11:59:29	I	1.83		109	ST	91.08	3.05		
11:59:28	O	.83/.84	O	585x126		91.08	3.05		
11:59:28	O	.83/.84	O	649x126		91.08	3.05		
11:59:28	O	.83/.84	O	755x126		91.08	3.05		
11:59:28	O	.83/.84	O	691x126		91.08	3.05		

C+FY US 6 C5.00 \$ C .16 +.01 A .16/.18 2,093x130 EquityQRM									
As of Mar31 OpInt 1047785 Vol 80,742 Op .15 P Hi .20 I Lo .15 P									
Time 12:00:00 Min Vol Price Range To White indicates new market information. USD									
Date 3/18 Price Range To Cond									
CITIGROUP INC PRICE .16 Cond									
Time	E	Bid/Trd/Ask	E	Size	Cond	Volatility	Und. Price		
11:59:59	P	.27/.28	I	245x950	AV	121.39	3.02		
11:59:59	O	.25		2000	SP	117.61	3.02		
11:59:59	O	1.25		50	SP	117.61	3.02		
11:59:44	P	.27/.28	I	245x925	AV	121.39	3.02		
11:59:44	I	.28		50	ET	123.25	3.02		
11:59:34	P	.27/.28	I	245x975	AV	121.39	3.02		
11:59:32	P	.27/.28	I	285x975	AV	121.39	3.02		
11:59:29	P	.27/.28	I	245x975	AV	119.69	3.05		
11:59:27	P	.27/.28	I	285x975	AV	119.69	3.05		
11:59:26	P	.27/.28	I	223x975	AV	119.69	3.05		
11:59:26	P	.27/.28	I	183x975	AV	119.69	3.05		
11:59:25	P	.27/.28	I	237x975	AV	119.69	3.05		
11:59:25	P	.27/.28	I	277x975	AV	119.69	3.05		
11:59:24	P	.27/.28	I	237x975	AV	119.69	3.05		
11:59:04	P	.27/.28	I	183x975	AV	119.69	3.05		
11:59:00	Q	.27/.28	I	10x975		120.82	3.03		
11:59:00	I	1.28		25	ET	121.53	3.05		
11:58:45	P	.27		10	ET	120.82	3.03		

C+RY US 6 P2.50 \$ C .85 -.03 A .83/.85 465x317 EquityQRM									
As of Mar31 OpInt 312173 Vol 5,840 Op .81 O Hi .85 I Lo .80 O									
Time 12:00:00 Min Vol Price Range To White indicates new market information. USD									
Date 3/18 Price Range To Cond									
CITIGROUP INC PRICE .85 Cond									
Time	E	Bid/Trd/Ask	E	Size	Cond	Volatility	Und. Price		
12:00:00	P	1.19/1.22	I	283x276	AV	281.85	3.02		
12:00:00	P	1.19/1.22	I	283x266	AV	281.85	3.02		
11:59:59	P	1.19/1.22	I	283x262	AV	281.85	3.02		
11:59:59	P	1.19/1.22	I	218x262	AV	281.85	3.02		
11:59:58	I	1.17/1.22	O	802x224		277.17	3.02		
11:59:58	I	1.17/1.22	O	802x216		277.17	3.02		
11:59:57	I	1.17/1.22	O	802x189		277.17	3.02		
11:59:56	I	1.17/1.22	O	802x179		277.17	3.02		
11:59:56	I	1.17/1.22	O	802x167		277.17	3.02		
11:59:55	I	1.17/1.22	O	802x132		277.17	3.02		
11:59:54	I	1.17/1.22	O	802x144		277.17	3.02		
11:59:53	I	1.17/1.22	O	790x144		277.17	3.02		
11:59:53	I	1.17/1.22	O	750x144		277.17	3.02		
11:59:53	I	1.19		751	ET	281.85	3.02		
11:59:53	P	1.19		89	ET	281.85	3.02		
11:59:53	P	1.19		198	ET	281.85	3.02		
11:59:53	P	1.19		100	ET	281.85	3.02		
11:59:48	I	1.19/1.22	O	751x144		281.85	3.02		

C+RP US 6 P5.00 \$ C 2.95 -.05 A 2.95/2.98 140x1 EquityQRM									
As of Mar31 OpInt 972079 Vol 70,977 Op 2.98 I Hi 3.05 A Lo 2.90 A									
Time 12:00:00 Min Vol Price Range To White indicates new market information. USD									
Date 3/18 Price Range To Cond									
CITIGROUP INC PRICE 2.95 Cond									
Time	E	Bid/Trd/Ask	E	Size	Cond	Volatility	Und. Price		
11:59:59	O	3.15		50	SP	275.95	3.02		
11:59:59	I	3.20/3.30	I	271x35		284.74	3.02		
11:59:58	O	3.20/3.30	I	257x35		284.74	3.02		
11:59:58	O	3.20/3.30	I	246x35		284.74	3.02		
11:59:57	O	3.20/3.30	I	216x35		284.74	3.02		
11:59:57	O	3.20/3.30	I	208x35		284.74	3.02		
11:59:56	O	3.20/3.30	I	181x35		284.74	3.02		
11:59:52	O	3.20/3.30	I	147x35		284.74	3.02		
11:59:50	O	3.20/3.30	I	137x35		284.74	3.02		
11:59:50	O	3.25		514		293.65	3.02		
11:59:48	O	3.20/3.25	O	137x514		284.74	3.02		
11:59:47	O	3.20/3.25	O	169x514		284.74	3.02		
11:59:47	O	3.20/3.30	I	163x35		284.74	3.02		
11:59:46	O	3.20/3.30	I	131x35		284.74	3.02		
11:59:45	I	3.20/3.30	I	124x35		284.74	3.02		
11:59:45	O	3.20/3.30	I	111x35		284.74	3.02		
11:59:45	X	3.25		129	ET	293.65	3.02		
11:59:45	I	3.25		129	ET	293.65	3.02		

JAN Options:

MRV:AA 1 C2.50 \$ C .99 +.09 0 .98/1.00 103x100 EquityQRM

As of Mar31 OpInt 81771 Vol 2,723 Op 1.10 I Hi 1.10 I Lo .90 0

Definitions QR/QRM Options Market/Trade Recap Page 1

Time 12:00:00 Min Vol White indicates new market information USD

Date 3/18 Price Range To while gray indicates a previous quote.

CITIGROUP INC PRICE .99 Cond

Time	E	Bid/Trd/Ask	E	Size	Cond	Volatility	Und. Price
11:59:48	I	1.17/1.23	O	2x9		89.86	3.02
11:59:34	O	1.16/1.23	O	10x9		86.23	3.05
11:59:34	O	1.16/1.23	I	10x10		86.23	3.05
11:59:34	O	1.16/1.23	I	10x22		86.23	3.05
11:59:34	O	1.16/1.23	O	10x59		86.23	3.05
11:59:34	O	1.16/1.23	O	10x89		86.23	3.05
11:59:34	O	1.16/1.22	I	10x10		86.23	3.05
11:59:34	O	1.16/1.22	O	10x10		86.23	3.05
11:59:33	O	1.16/1.21	I	10x10		86.23	3.05
11:59:33	O	1.16/1.21	I	10x74		86.23	3.05
11:59:33	O	1.16/1.21	X	10x64	/A	86.23	3.05
11:59:33	O	1.16/1.21	I	10x50		86.23	3.05
11:59:33	X	1.21		37		94.38	3.02
11:59:33	O	1.16/1.21	A	10x64	/A	86.23	3.05
11:59:33	O	1.16/1.21	O	10x57		86.23	3.05
11:59:33	P	1.20		40	ET	93.25	3.02
11:59:33	O	1.16/1.20	P	10x1	/A	86.23	3.05
11:59:33	O	1.21		13		94.38	3.02

Australia 61 2 9777 9600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2397 6000

Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000

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SN 689063 01-Apr-2009 08:12:01

MRV+MA 1 P2.50 \$ C 1.29 +.01 0 1.26/1.29 10x10 Equity QRM
As of Mar31 OpInt 100231 Vol 203 Op 1.23 0 Hi 1.29 0 Lo 1.22 I

Definitions **QR/QRM Options** **Market/Trade Recap** **Page 1**

Time 12:00:00 Min Vol **White indicates new market information** **USD**
Date 3/18 Price Range To **while gray indicates a previous quote.**

CITIGROUP INC PRICE 1.29 Cond

Time	E	Bid/Trd/Ask	E	Size	Cond	Volatility	Und. Price
11:59:58	O	1.45/1.46		6x62		194.16	3.02
11:59:56	X	1.45/1.46		6x50	AV	194.16	3.02
11:59:56	O	1.45/1.46		6x62		194.16	3.02
11:59:56	X	1.45/1.46		6x50	AV	194.16	3.02
11:59:48	O	1.45/1.46		6x50		194.16	3.02
11:59:48	X	1.45/1.46		6x50	AV	194.16	3.02
11:59:48	O	1.45/1.46		6x50		194.16	3.02
11:59:48	X	1.45/1.46		6x50	AV	194.16	3.02
11:59:48	O	1.45/1.46		6x50		194.16	3.02
11:59:48	X	1.45/1.46		6x50	AV	194.16	3.02
11:59:47	X	1.45/1.46		6x50	AV	194.16	3.02
11:59:47	O	1.45/1.46		6x62		194.16	3.02
11:59:47	X	1.45/1.46		6x50	AV	194.16	3.02
11:59:47	O	1.45/1.46		6x50		194.16	3.02
11:59:47	X	1.45/1.47		6x100	AV	194.16	3.02
11:59:47	O	1.45/1.47		6x100		194.16	3.02
11:59:46	X	1.45/1.47		6x100	AV	194.16	3.02
11:59:46	O	1.45/1.47		6x100		194.16	3.02
11:59:46	X	1.45/1.47		6x100	AV	194.16	3.02

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 SH 880605 01-Apr-2009 08:12:40

MRV-AZ 1 C5.00 \$ C .55 +08 0 .53/.55 51x381 EquityQRM

As of Mar31 OpInt 144251 Vol 1,718 Op .64 P Hi .64 P Lo .48 I

Definitions QR/CRM Options Market/Trade Recap Page 1

Time 12:00 Min Vol White indicates new market information

Date 3/18 Price Range To while gray indicates a previous quote.

CITIGROUP INC PRICE .55 Cond

Time	E	Bid/Trd/Ask	E	Size	Cond	Volatility	Und. Price
11:59:46	I	61/ 63	P	30x100	/A	99.26	3.02
11:59:46	O	61/ 63	P	60x100	/A	99.26	3.02
11:59:45	I	61/ 63	P	90x100	/A	99.26	3.02
11:59:43	P	62/ 63	P	21x100	A/A	100.17	3.02
11:59:43	P	62		19	ET	100.17	3.02
11:59:29	P	62/ 63	P	40x100	A/A	98.90	3.05
11:59:27	I	61/ 63	P	94x100	/A	97.99	3.05
11:59:26	I	61/ 63	P	117x100	/A	97.99	3.05
11:59:20	P	.62		10	ET	98.90	3.05
11:59:20	P	62/ 63	P	10x100	A/A	98.90	3.05
11:59:05	P	62/ 63	P	20x110	A/A	98.90	3.05
11:58:56	O	62/ 63	P	20x110	/A	99.75	3.03
11:58:52	I	61/ 63	P	125x110	/A	98.83	3.03
11:58:52	I	61/ 63	P	121x110	/A	98.83	3.03
11:58:52	I	61/ 63	P	111x110	/A	98.83	3.03
11:58:51	I	61/ 63	P	90x110	/A	98.83	3.03
11:58:51	I	61/ 63	P	111x110	/A	98.83	3.03
11:58:33	I	61/ 63	P	90x110	/A	98.83	3.03

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Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2009 Bloomberg Finance L.P.

SH 980965 01-Apr-2009 08:14:30

MRV+MZ 1 P5.00 \$ C 3.30 -.10 P 3.25/3.35 1,319x281 EquityQRM

As of Mar31 OpInt 131242 Vol 539 Op 3.30 0 Hi 3.30 0 Lo 3.25 I

Definitions QR/QRM Options Market/Trade Recap Page 1

Time 12:00 Min Vol 0.00

Date 3/18 Price Range 3.30 To 3.30

CITIGROUP INC PRICE 3.30 Cond 0

Time	E	Bid/Trd/Ask	E	Size	Cond	Volatility	Und. Price
11:59:56	O	3.50/3.60	I	122x7		191.17	3.02
11:59:49	O	3.50/3.65	I	100x6		191.17	3.02
11:59:49	O	3.55/3.65	I	10x6		196.60	3.02
11:59:49	O	3.50/3.65	I	90x6		191.17	3.02
11:59:49	O	3.55/3.65	I	10x6		196.60	3.02
11:59:49	O	3.50/3.65	I	90x6		191.17	3.02
11:59:49	O	3.55/3.65	I	10x6		196.60	3.02
11:59:49	O	3.50/3.65	I	90x6		191.17	3.02
11:59:49	O	3.55/3.65	I	10x6		196.60	3.02
11:59:49	O	3.50/3.65	I	90x6		191.17	3.02
11:59:49	O	3.55/3.65	I	10x6		196.60	3.02
11:59:49	O	3.50/3.65	I	90x6		191.17	3.02
11:59:49	O	3.55/3.65	I	10x6		196.60	3.02
11:59:49	O	3.50/3.65	I	100x6		191.17	3.02
11:59:49	O	3.55/3.65	I	10x6		196.60	3.02
11:59:49	O	3.50/3.65	I	90x6		191.17	3.02
11:59:49	O	3.55/3.65	I	10x6		196.60	3.02
11:59:49	O	3.50/3.65	I	90x6		191.17	3.02

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SN 689065 01-Apr-2009 09:15

Thanks

Ri\$k Doctor

Rev/Con markets in hard-to-borrows

« Reply #1 on: April 05, 2009, 06:30:23 PM »

QUOTE

...customers were paying market-makers \$1 in order to get long stock and have market-makers get short stock until Jun09 expiration

I don't think the customers were paying this. I think it was market makers keeping the mid values there because thy cannot short stock and need to get long stock as much as possible to accommodate the order flow.

QUOTE

call can become a punch

Sorry, "punch is jargon, I am not familiar with. I must be getting old.

QUOTE

If I punch the call and get long stock, I am also synthetically selling the put...should I really think of this situation as having something like a 120 delta? 100 for the long stock and 20 for the short put?

There is only a .04 carry on the JAN 5 line so the model is distorted and I would consider that you go 1:1:100.

QUOTE

The box markets line up about where we would expect, with the Jun09 box worth ~2.61 and the Jan2010 box worth about 2.71.

Why would you expect 2.61 and 2.71? The boxes are the safest things to short if you can get those prices and your commissions are cheap enough to warrant the trade. I would not

leg them because the 5 Puts are each .10 wide. Are the boxes over 2.50 bid?

QUOTE

The time spreads also line up, with the 2.5 line timespreads worth more than the more OTM 5 time spreads.

That makes sense because C is closer to 2.5 but the 2.5 Call Calendar looks to be about .10 too fat over the 2.5 Put Calendar. The 2.5 Jelly Roll is off but thdoing that Jelly Roll might get you into 'Hard to Borrow' Short Stock after JUN Expiry.

MGB83

Rev/Con markets in hard-to-borrows

« Reply #2 on: April 06, 2009, 04:31:00 PM »

Charles,

I think the problem with the Jun5 Jan2.5 split-strike roll is the assignment risk of the short Jan2010 2.5 calls. Although we will be flat stock in our combined position, the short June stock, long Jan2010 stock position isn't risk free because there are prices at which the Jan 2.5 calls are a punch (an exercise) and our long Jun 5 calls are not an exercise.

Running some american option models, this roll is not delta-neutral - most models have it between short 3 and 7 deltas. This intuitively makes sense because we would be rooting for the stock to drop. The ideal situation would be for stock to be zero, and then there is no way we would be assigned on our short Jan2010 2.5 calls and we would get to keep the 0.23.

The box markets only line up in the sense that the Jan2010 2.5-5.0 box is worth more than the Jun2009 2.5-5.0 box because each is like borrowing 2.50 for either ~3 months or 9 months. The implied rate of Jun money is 4.4% for the 3 months (so ~20% APR) and the rate for Jan money is 8.4% (so maybe 11% APR). These rates are probably a bit high, but even for market-makers, getting this position on would be hard and very dangerous since the rev/con markets had just exploded from 40 cents to a dollar in only about 6 hours of trading, and implied rates were changing by the minute.

Overall, it was a very interesting situation, with a lot of potential for some PnL swings.

Thanks!

Ri\$k Doctor

Rev/Con markets in hard-to-borrows

« Reply #3 on: April 12, 2009, 05:43:25 AM »

Great explanation. You have to play it for what it is. I would not look at the fluctuating prices as implied interest but rather risk premium regarding the potential 'punch'. Get in, get out, ring the cash register, go home. Come back and do it again. You can even play it from either side and can probably chart the price action of any of the reversals.

Ali

Income for life?

« **on:** March 19, 2009, 07:05:35 AM »

I recently ran into a friend who primarily trades covered calls.

All he does is once a month sell slightly OTM front month calls on QQQQ. If it expires, he will do it again for the next month. If he gets called out, he will buy back the stock on Monday and sell the calls again. He relies on this for income each month. He does not care about the values of the Qs, as long as he can sell his calls each month and generate an income. He says he is not planning to take that money out and he is going to keep it in the market for life. He just basically cares to collect the premium from his short calls for income each month.

There are a few things I pointed out to him, with regards to risk. Also suggested some alternatives.

1) What if the Qs fall into the low teens or under 10 and stay there and volatility dries up such that the premiums would be too low to generate any meaningful income? I understand that the probably of such thing is not high, but it still can happen. He said if he felt that might happen, he will switch to SPY; and in that case if that happens to the SPY, then we will have bigger problems than money.

2) I then explained how a covered call is basically a short put. So one alternative would to sell the put (instead of buy the stock + sell the call) at the same strike he would sell the call; but then go ahead and buy a lower put (could be as low as he wanted), to just have some insurance in place. That way he gets to get his income + have some protection in case of a nasty bear market, like the one we're seeing. This was too much for him, and he said he has to think about this. His main problem was that with covered call, if the Qs stay below the short calls, he will retrieve the money collected from his account, and sell again. But with short put verticals, he is confused since he would've lost on the put vertical, & would have to buy it back and will not get to collect the premium. I tried explaining that it would be the same thing, if he then just reaches into his cash and retrieves an amount equal to the extrinsic value of the puts at the time that he sold them, but that was confusing to him.

I'm going to let him digest my suggestions for a while; but meanwhile I wanted to get feedback from Charles & others to see if there are any other risks or better ways of achieving his goals. Again just to restate his goal: He has a chunk of money which he never plans to take out of the market, so he doesn't care where the end value of that money will be 5 or 10 years from now. But what he wants is to get a steady stream of income as long as he is alive.

- Ali

Ri\$k Doctor

Income for life?

« **Reply #1 on:** March 22, 2009, 06:59:49 AM »

Most RiskDoctor students know that Covered Writes are short puts and neither does well in a bear market, no matter what ones perception is.

There is not much one can say to someone with such deep pockets, who has weathered the storms before, to encourage them to do anything different than what they know.

Only time will tell if the the stocks that this person has will recover before he really needs the money.

I hope they do for his sake.

volramp

double slingshot

« on: March 05, 2009, 11:32:45 AM »

I've been playing around with double slingshots. I have noticed to my surprise that when the short strikes are ATM the total delta is negative. My initial assumption was that it would be neutral to start with. So, am I seeing this wrong, or is this a bearish strategy? How would you suggest I open the position to be deltaneutral at onset? To make things clearer, my position is DITM call and put for the underlying, and 2 ATM credit spreads for each corresponding DITM option. This can also be seen as c and p ATM flies, with an extra OTM option on each wing (for the "kick"). thanks for your help.

Ri\$k Doctor

double slingshot

« Reply #1 on: March 05, 2009, 06:54:47 PM »

Please forgive me but does 'DITM' stand for Deep In-The-Money? Also, it would be extremely helpful if you could email me a screen-shot of the options chain or an image from your software showing the exact position. I will be happy to examine it all and respond to your question.

volramp

double slingshot

« Reply #2 on: March 06, 2009, 12:43:37 AM »

Here is my position. Hopefully, this will enable you to help. SPY April options. Position entered on March 3rd. 60/70/80 strikes, Put & Call Butterflies, with a 60/80 strangle. Total cost 9.32\$ Debit.

Instrument	Qty	Days	Mark	Mark Chng	Delta	Gamma	Theta	Vega	P/L Open	P/L Day	BP Effect
SPY					-470.94	-66.76	5.12	-119.20	\$1,080.00	\$292.50	\$0.00
S&P DEP RECEIPTS	0		69.17	+37	.00	.00	.00	.00	\$0.00	\$0.00	
100 APR 09 60 CALL	+45	42	10.25	-.025	3659.94	102.43	-145.23	281.03	(\$3,690.00)	(\$112.50)	
100 APR 09 60 PUT	+90	42	1.48	-.06	-1760.42	199.07	-372.08	589.41	(\$1,125.00)	(\$540.00)	
100 APR 09 70 CALL	-90	42	3.475	-.10	-4350.73	-359.45	384.49	-847.96	\$6,345.00	\$900.00	
100 APR 09 70 PUT	-90	42	4.825	-.05	4590.09	-337.65	470.01	-847.55	(\$1,215.00)	\$450.00	
100 APR 09 80 CALL	+90	42	.525	-.02	1157.31	217.15	-182.35	448.39	(\$2,340.00)	(\$180.00)	
100 APR 09 80 PUT	+45	42	11.90	-.05	-3767.12	111.70	-149.70	257.49	\$3,105.00	(\$225.00)	
Subtotals:					-470.94	-66.76	5.12	-119.20	\$1,080.00	\$292.50	\$0.00

Currently, position is making money, but that's only because SPY has dropped and total deltas have been negative from the start. March 4th, when SPY went above 70 , the slingshots were underwater. Hence the question. Thank you.

double slingshot
« Reply #3 on: March 11, 2009, 05:36:50 PM »

QUOTE
Total cost 9.32\$ Debit.
One question that I have, is why did you choose to trade the in-the-money 60c/80p "Guts" Strangle instead of the out-of-the-money 60p/80c Strangle? Anyway, you have a butterfly 90 times and a kicker strangle 45 times protecting/insuring the butterflies.

	C	D	E	F	G	H	I	J	K
11		45	Raw Calls	Total Net Contracts			Raw Puts	45	
12									
13				PivotK	70				
14			Month	APR			Inc Adj	Y	
15	Raw Position								
16	nC	rC	Adj	Cur	K	Cur	Adj	rP	nP
26					59				
27		45		45	60	90		90	135
28					61				
29					62				
30					63				
31					64				
32					65				
33					66				
34					67				
35					68				
36					69				
37	(90)	(90)		(90)	70	(90)		(90)	(90)
38					71				
39					72				
40					73				
41					74				
42					75				
43					76				
44					77				
45					78				
46					79				
47	135	90		90	80	45		45	
48					81				
59	45	45		45	Net	45		45	45

By themselves, the butterfly gets long delta as SPY drops below 70. Why? Because the spread does better up at 70. Above 70, the butterfly becomes short delta for the same reason. The Strangle, on the other hand, becomes short delta as the absolute value of the 60 Put delta increases to a greater absolute value of the 80 Call delta.



With a lot of time left, and the strangle being of a higher gamma, the deltas will be mostly dictated by the strangles influence. Over time, however, the potency of that strangle becomes more diminished and the butterfly becomes the dominant force and thus the deltas of the butterfly outweigh the deltas of the strangle while close to the middle strike of 70.

It is funny how the 9.32 debit equals the synthetic debit of 9.32 on the table:

APR	Qty	Trade	Mark	P/L Open
60C	45	11.070	10.250	\$(3,690.00)
60P	90	1.605	1.480	\$(1,125.00)
70C	(90)	4.180	3.475	\$ 6,345.00
70P	(90)	4.690	4.825	\$(1,215.00)
80C	90	0.785	0.525	\$(2,340.00)
80P	45	11.210	11.900	\$ 3,105.00
				\$ 1,080.00
Bought 1 Guts Strangle		22.28	22.28	Debit
Sold 2Iron Condor		6.48	12.96	Credit
			9.32	Debit
Money on the Table:				
Strangle	2.28	45X	\$ 10,260.00	
Call Butterfly	3.52	90X	\$ 31,680.00	
			\$ 41,940.00	
45 Spreads	1Str/2But	9.32 Each		

The synthetic debit is the important factor to watch because and imagine it on a different ratio like 1 strangle per butterfly. Calculating the way that you got 9.32 the package would have been 15.80 Debit but the money on the table would have been 10.00 less at 5.80 Debit:

Bought 1 Guts Strangle	22.28	22.28	Debit
Sold 1Iron Condor	6.48	6.48	Credit
		15.80	Debit
Money on the Table:			
Strangle	2.28	45X	\$ 10,260.00
Call Butterfly	3.52	45X	\$ 15,840.00
			\$ 26,100.00
45 Spreads	1Str/1But	5.80 Each	

The importance of the ??On the Table? method is that it is more intuitive to think of the extrinsic value that you have at risk versus any potential Liability at expiration. Simply add the strangle price to butterfly price twice and that is your remaining value to risk-manage.

[CottleOnBouroudjianPart1of2_022509.mp3](#)

[CottleOnBouroudjianPart2of2_022509.mp3](#)

[CottleOnBouroudjianPart1of2_030609.mp3](#)

[CottleOnBouroudjianPart1of2_031909.mp3](#)

[CottleOnBouroudjianPart2of2_040109.mp3](#)

[CottleOnBouroudjianPart1of2_040109.mp3](#)

[CottleOnBouroudjian040809.mp3](#)

aguison

NDX/SPX straddle combo swap

« on: September 24, 2008, 09:40:00 AM »

I picked this up from an online forum:

One strategy that I have had some recent success with is going long NDX straddles and short SPX straddles in a certain ratio depending on where the the VIX and VXN are for both of them.

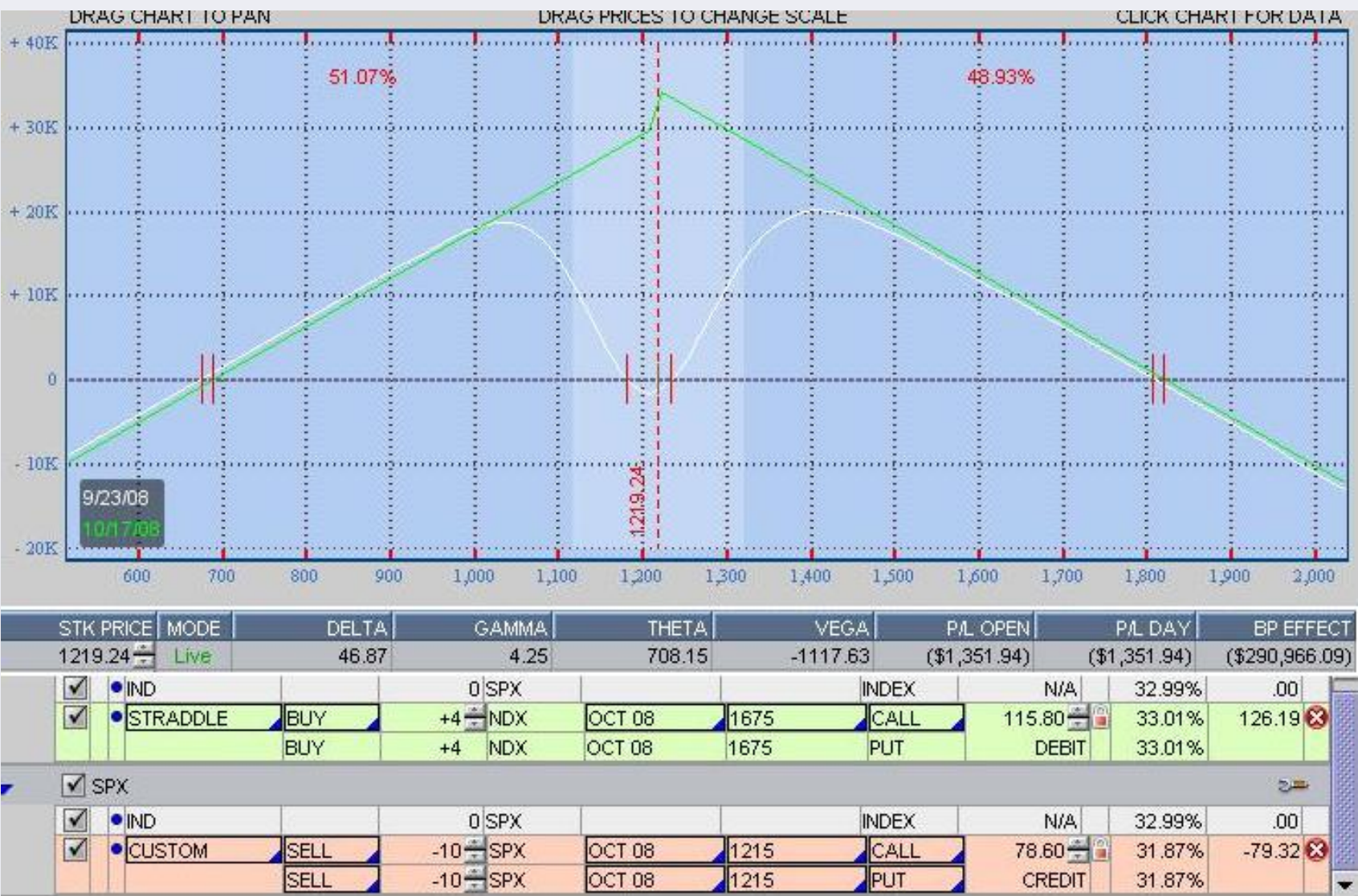
Here is the one I entered into yesterday. Take the risk graph with a grain of salt but it does show the position and vol readings of what I entered into. Basically it has a huge range of profit potential assuming VIX and VXN move in tandem as it usually does. I often will adjust the short SPX straddle into a FLY or only add one wing on the deep ITM side as the market moves and then sell more straddles. The idea is to open the position initially for a credit and manage it to keep the credit and theta.

The short straddles are well hedged as a result of the long NDX since NDX stat and IV move at a great speed and distance for the most part. In other words, SPX vols move about 60%of NDX vols. So if vols spike and market drops, the NDX longs should hedge somewhat my short SPX.

This position was opened for an initial net credit of about \$32k.

I will update the position as we move along. The SEP position I entered and adjusted along the way when the market was tanking led to + \$16,600 net profits on the huge sell-off so we will see how this one does.

Trade Risk Graph:



Ri\$k Doctor

NDX/SPX straddle combo swap

« Reply #1 on: September 25, 2008, 07:55:30 AM »

I don't really get it but I wish it goes well for you. I would have thought that the ratio would be dictated by the market caps and / or vegas or thetas.

QUOTE

...I often will adjust the short SPX straddle into a FLY or only add one wing on the deep ITM side as the market moves ...

A safer approach would be to at least have some far out wings in place (creating a huge iron butterfly), from inception along with the short straddle position in order to define maximum exposure.

The bigger question would be; is about your failsafe plan. Ok, you buy some wings and sell more straddles but where are your action points when the market heats up and what is the criteria of your strike selection for the wings? What if the relationship between the SPX and the NDX uncouple, deviating from your historical statistics?

Snapshot as of 1:58PM EST (Thursday, SEP 25, 2008):

SYMB...	LAST	%CHA...	NET C...
VXN	34.05	-6.46%	-2.35
VIX	32.79	-6.82%	-2.40
DJX	110.70	+2.26%	+2.45
NDX	1698.91	+2.26%	+37.58
SPX	1213.99	+2.37%	+28.12

Ri\$k Doctor

NDX/SPX straddle combo swap

« Reply #2 on: September 26, 2008, 08:11:37 AM »

Looking good!

Snapshot as of 12:08PM EST (Friday, SEP 26, 2008):

SYMBOL	LAST	%CHA...	NET C...
VXN	37.31	+7.03%	+2.45
VIX	35.94	+9.51%	+3.12
DJX	109.45	-0.70%	-.77
NDX	1646.14	-2.45%	-41.41
SPX	1191.36	-1.47%	-17.82

CoachPhil

NDX/SPX straddle combo swap

« Reply #3 on: September 30, 2008, 06:48:14 PM »

Charles:

This was my position actually and I am glad it got raised here so I can get your input as it looks like a good strategy for me so far with success even in this wild market.

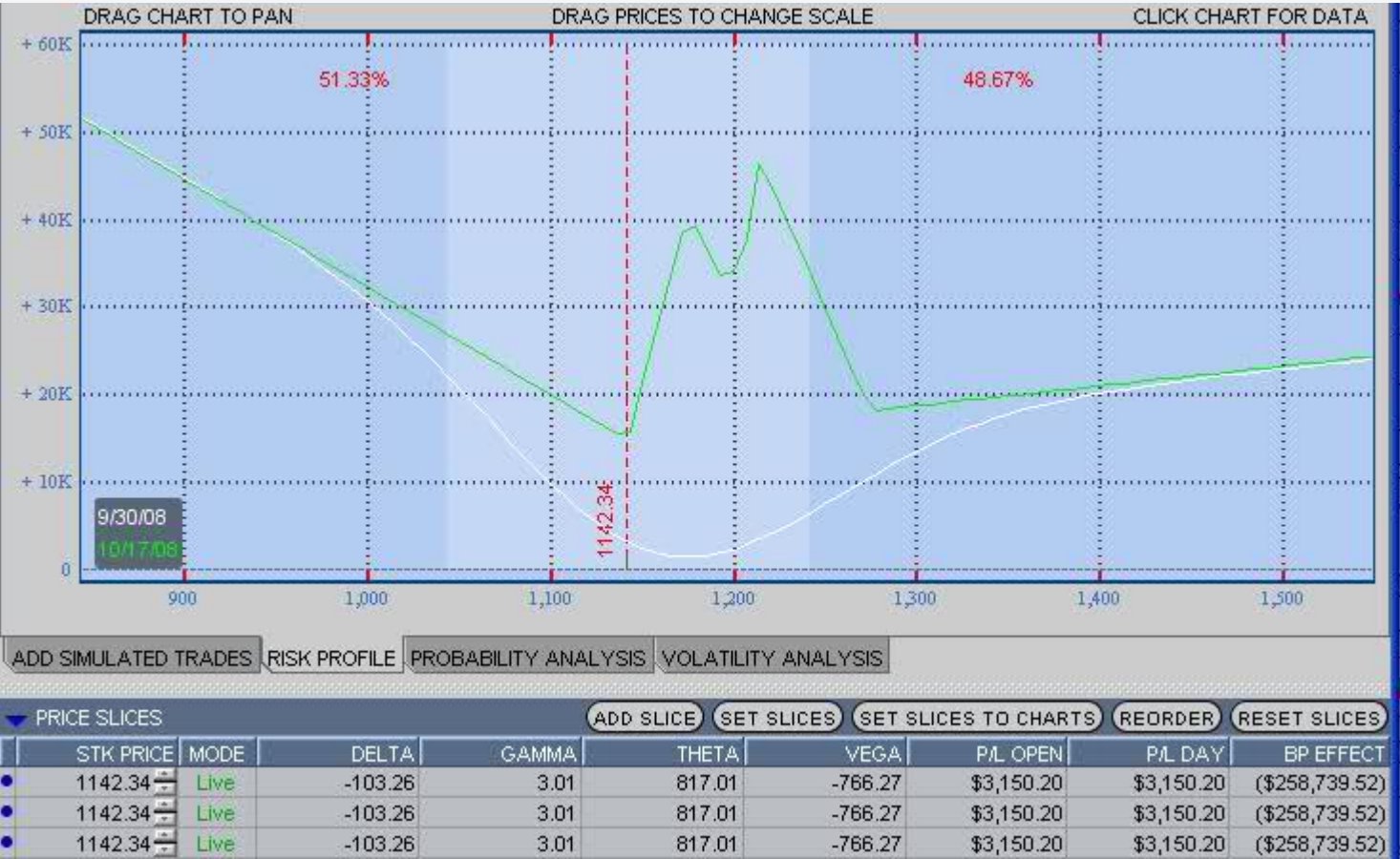
To the right is a chart of the current position adjusted from what was the original:

After a few adjustments I have raised the entire graph above the zero line and just gonna sit on it until expiration as I am safe in either direction. Of course the green line can adjust as the indexes move based on their relationship but I have to stay on top of it and check it daily and see. These are all OCT positions so the green expiration line is locked in. I start out with long NDX/short SPX combo in a ratio based on my research in VIX/VXN relationships as well as NDX/SPX relationships (still a work in progress).

Then as market moves I try to adjust to lock up any short premium risk while maintaining my risk profile. In the above chart I eventually rolled down the long puts in the NDX which were way ITM to lock in some profit and reduce loss on them if market rallied and then added some OTM long SPX calls for upside deltas (Ali Pashei suggestions which I liked and followed).

As you can see, I have a large hump in the middle at the ATM strike of the original position and positive wings now for profit in either direction. It was a couple of steps to get here but in most cases when markets stay rangebound I make no adjustments and just let it decay away to expiration.

If you adjust the index prices higher or lower and have them move really off from each other the green line changes drastically so as you point out it relies on the NDX/SPX relationship holding for the most part.



tricia

NDX/SPX straddle combo swap

« Reply #4 on: October 01, 2008, 05:54:57 PM »

Well, how is the position performing now?
I wonder why Charles says that he does not get it. What's unusual about this trade?

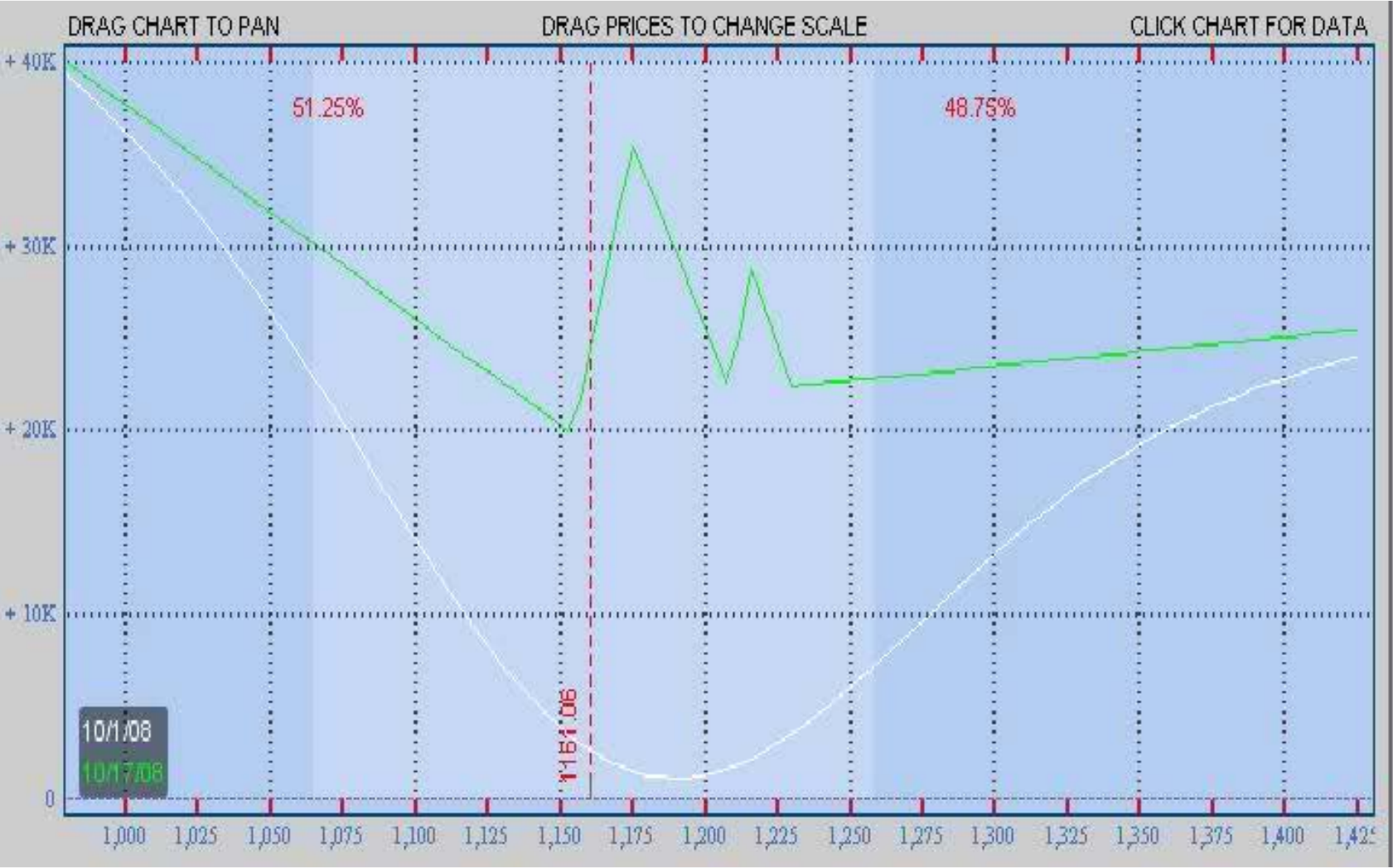
CoachPhil

NDX/SPX straddle combo swap

« Reply #5 on: October 01, 2008, 07:02:42 PM »

Position is still performing well and traded around it a bit today. With the market up I sold the 5 SPX 1275 calls I had bought the day before, for \$1.00 profit and decided to add 5 new SPX calls at 1230. Wanted to roll the calls down lower for more deltas to protect upside a bit and lift the upper wing.

Below is the current adjusted risk graph of the position.



Just going to sit on it until expiration still.

NDX/SPX straddle combo swap

« Reply #6 on: October 03, 2008, 12:37:32 PM »

QUOTE

Tricia: Well, how is the position performing now? I wonder why Charles says that he does not get it. What's unusual about this trade?
I was referring to the determination of the ratios.

Also as these positions are adjusted, it would be nice to have a summary of the original position and how it has changed. I can then provide dissections for all to learn from and comment on perhaps a more efficient approach. In order to achieve this, for each new post, please list:

- 1.) The Original Position:
- 2.) Adjustment 1, Adjustment 2, etc.
- 3.) Remaining Position

What follows is a summary of how the position performed during the last couple of weeks of turmoil:

Snapshot as of Close (Monday, SEP 29, 2008):

•SYMBOL	LAST	%CHA...	NET C...
•VXN	49.56	+34.49%	+12.71
•VIX	46.72	+34.48%	+11.98
•DJX	103.65	-6.98%	-7.78
•NDX	1496.15	-10.52%	-175.89
•SPX	1106.42	-8.81%	-106.85

Snapshot as of 3:51PM EST (Tuesday, SEP 30, 2008):

•SYMBOL	LAST	%CHA...	NET C...
•VXN	42.31	-14.63%	-7.25
•VIX	38.90	-16.74%	-7.82
•DJX	108.36	+4.54%	+4.71
•NDX	1595.93	+6.67%	+99.78
•SPX	1164.97	+5.29%	+58.55

Snapshot as of Close (Tuesday, OCT 1, 2008):

•SYMBOL	LAST	%CHA...	NET C...
•VXN	42.58	-14.08%	-6.98
•VIX	39.39	-15.69%	-7.33
•DJX	108.51	+4.69%	+4.86
•NDX	1584.60	+5.91%	+88.45
•SPX	1164.74	+5.27%	+58.32

Snapshot as of Close (Tuesday, OCT 2, 2008):

•SYMBOL	LAST	%CHA...	NET C...
•VXN	49.53	+15.40%	+6.61
•VIX	45.26	+13.69%	+5.45
•DJX	104.83	-3.21%	-3.48
•NDX	1491.11	-4.65%	-72.69
•SPX	1114.28	-4.03%	-46.78

Snapshot as of Close (Tuesday, OCT 3, 2008):

•SYMBOL	LAST	%CHA...	NET C...
•VXN	49.97	+0.89%	+44
•VIX	45.19	-0.15%	-07
•DJX	103.26	-1.50%	-157
•NDX	1470.84	-1.36%	-2027
•SPX	1099.24	-1.35%	-1504

Snapshot of Straddle Prices and P/L from SEP 24, 2008 to OCT 03, 2008 (Non-Adjusted).

at Close	NDX	Syn Fut	OCT 1675 IV	Straddle Price*	x 4 x \$100	SPX	Syn Fut	OCT 1215 IV	Straddle Price*	x (10) x \$100	Spread Price*	P/L
	1680.00			114**	\$45,600	1220.00			80**	(\$80,000)	(\$34,400)	-
23-Sep	1638.40	1649.25	34.37%	111.75	\$44,700	1188.22	1185.90	32.78%	84.00	(\$84,000)	(\$39,300)	(\$4,900)
24-Sep	1661.33	1669.75	35.42%	118.55	\$47,420	1185.87	1191.50	32.92%	82.10	(\$82,100)	(\$34,680)	(\$280)
25-Sep	1687.55	1674.85	34.14%	111.75	\$44,700	1209.18	1212.40	32.10%	76.20	(\$76,200)	(\$31,500)	\$2,900
26-Sep	1672.04	1673.75	36.07%	115.35	\$46,140	1213.27	1212.90	34.84%	80.80	(\$80,800)	(\$34,660)	(\$260)
29-Sep	1496.15	1509.45	41.26%	194.75	\$77,900	1106.42	1117.70	37.95%	122.30	(\$122,300)	(\$44,400)	(\$10,000)
30-Sep	1584.60	1592.70	39.63%	133.05	\$53,220	1164.74	1164.70	38.12%	88.45	(\$88,450)	(\$35,230)	(\$830)
1-Oct	1563.80	1574.00	39.21%	140.55	\$56,220	1161.06	1164.70	38.56%	87.80	(\$87,800)	(\$31,580)	\$2,820
2-Oct	1491.11	1506.65	39.00%	193.61	\$77,444	1114.28	1123.60	37.71%	112.60	(\$112,600)	(\$35,156)	(\$756)
3-Oct	1470.84	1473.15	44.86%	211.50	\$84,600	1099.28	1105.47	42.15%	120.14	(\$120,140)	(\$35,540)	(\$1,140)

* Using Average Price Between Bid and Ask (Except Initial Trade) at Close

** Using Adjusted Fill Price to Credit Back Lost Slippage for Fair Comparison (Real Prices 115.80: and 78.60)

NDX/SPX straddle combo swap

« Reply #7 on: October 06, 2008, 12:41:17 PM »

What I did not like about the original spread, is that on a huge move, the straddles have turned into 100 Deltas per straddle. So basically you get, in effect, 10 Long SP Futures vs +4 Short ND Futures so the NDX has to move 2.5 times farther to keep up with the SPX on the 10 to 4 ratio. Snapshot as of an Hour Before the Close (Monday, OCT 6, 2008):

•SYMBOL	LAST	%CHA...	NET C...
•VXN	60.65	+21.89%	+10.89
•VIX	57.65	+27.71%	+12.51
•DJX	96.48	-6.56%	-6.77
•NDX	1357.48	-7.71%	-113.36
•SPX	1021.14	-7.10%	-78.09

The following shows that, since putting on the spread, the NDX has moved just over 300 and the SPX has moved almost 200 (NDX roughly 1.5 times the SPX). The original Trade would be down \$36000 at the time of the Screenshot. Snapshot of Straddles:

NDX	NASDAQ-100 (DRM)	Net Change	Theo Price	ALL
UNDERLYING				
LAST X	NET CHNG	BID X	ASK X	SIZE
1351.24	-119.60	0	0	0 x 0
CALLS				
Date	10/6/08	Stock Price Adj	+0.00	Vol Adj
PUTS				
NET CH...	THEO P...	BID X	ASK X	STRIKE
+135.38	324.53	318.45	329.10	1675 / 1675
SPX				
S&P 500 INDEX				
UNDERLYING				
LAST X	NET CHNG	BID X	ASK X	SIZE
1018.34	-80.89	1017.73	1018.96	0 x 0
CALLS				
Date	10/6/08	Stock Price Adj	+0.00	Vol Adj
PUTS				
NET CH...	THEO P...	BID X	ASK X	STRIKE
+66.79	200.75	197.30	204.20	1215 / 1215

I understand that you made adjustments and would like to see what you did.

NDX/SPX straddle combo swap

« Reply #8 on: October 06, 2008, 01:52:12 PM »

Mr Cottle

What we are seeing here is the most extreme conditions for this kind of spread which is great to see how I handle the adjustments and the position since most months the market is quasi-rangebound.

First on the ratio. My calculations show that a 6:10 ratio of NDX to SPX is about right based on historical moves in the indexes and in the relative IV. However, with vols relative high at the time I entered the position I did 4:10 to skew the greeks to more theta and short vol so that I would profit quicker on a drop in vols and time passing. Of course the markets made 50 - 75 point moves regularly over the past week.

So basically what I do daily is study the risk graph and adjust where needed. First set of adjustments were to wing off the put on the short straddle and sell more straddles ATM at higher vols. As market dropped further I rolled my long puts in the NDX straddle to lock in some profits and would incrementally sell premium in SPX at higher vols while hedging with long puts/calls in the NDX.

So my main plan is to simply let the original position do its thing but on large moves, I have to hedge or adjust the short premium risks and short vol bias and add deltas in the NDX. Today I sold some SPX strangles (200 wide) and added deep OTM puts on NDX and the day before I added OTM calls on SPX, sort of adding the wings as you would say.

So as you showed, leaving the original position in place with the markets moving so far would not lead to a profit as the risk profile changes as the markets make large moves. Therefore, I have to adjust.

Now I am sure I have over adjusted / over traded the position a bit but with these HUGE wild swings I have been overly cautious. For example, as the market dove today the risk graph I last posted had the left trough dip down to the zero line due to the short puts moving further ITM and having higher deltas than my OTM long puts in NDX. I corrected this by selling some strangles to bring in some credit for a wide range and adding protection to the downside. This has been a wild market so I am sure I have overtraded this a bit but if I can still make money I will get a good feel how to really handle this position in the future during wild swings and show a little more restraint in the adjustments.

Updated graph will be posted later tonight.

Regards,

Phil

<div>Ri\$k Doctor</div>	<div><div>NDX/SPX straddle combo swap</div><div>« Reply #9 on: October 06, 2008, 05:37:00 PM »</div></div> <div>Please provide actual adjustments when made and I will be happy to retroactively dissect at each phase.</div>
<div>CoachPhil</div>	<div><div>NDX/SPX straddle combo swap</div><div>« Reply #10 on: October 06, 2008, 06:54:19 PM »</div></div> <div>I will reconstruct all the adjustments up until today and post them with a final chart. Appreciate the offer as I am looking to scale this up after a few more months like the past few I have had.</div>
<div>lyrical_s</div>	<div><div>NDX/SPX straddle combo swap</div><div>« Reply #11 on: February 28, 2009, 11:54:10 PM »</div></div> <div>Here, I hope to see what Charles would think of the adjustments and possible alternatives to approaching this trade.</div> <div>I have pasted the following first bunch of adjustments:</div> <div>Step 1 Original Position</div> <div>Sold -10 OCT SPX 1215 Straddles @ \$78.60 (\$78,600 credit) Bot +4 OCT NDX 1675 Straddles @ \$115.80 (\$46,320 debit)</div> <div>Net Credit = \$32,280</div> <div>Step 2. First Adjustment Today (9/29)</div> <div>Bought +10 OCT SPX 1210 Puts @ \$61.00 (\$61,000 debit)</div> <div>Sold -8 OCT SPX 1175 Straddles @ \$85.20 (\$68,160 credit)</div> <div>Both moves combined for net credit of \$7,160. Assuming I am tracking this write, total net credit for position is now \$39,440. (remember this is not net profit or max profit, just current net credit in position)</div> <div>Winged off naked put risk after market dumped to 1170 and sold 1170 straddles at higher vols to take back credit in. As risk of large moves has increased I did not sell 10 SPX but 8 as vols have increased, I do not need to sell as many. Long NDX straddles are up in profit still hedging short position. If we look just at the 1215 Straddle I sold it for \$78.60 and bought 1210 puts for \$61.00 for net credit remaining of \$17,60. Position is a bull put spread with \$5k max loss below 1210 so assuming that loss is taken at expiration the position net credit is\$12,60 at 1210 or below with still naked short calls. So below 1210 on THIS portion of the SPX I lock in a profit of \$12,600 so far.</div> <div>Step 3 Additional Adjustment Today (9/29)</div> <div>REMINDER I am still long 1675 NDX straddles and short 1175 SPX straddles among other positions above.</div> <div>Market continued to drop to 1130-ish range so did the following two moves:</div> <div>BOT +8 OCT SPX 1170 Puts @ \$84.00 (debit of \$67,200)</div> <div>Needed to fly off the put side of this short 1175 straddle as market kept tanking hard. So I reduced the combined net credit on the -8 straddles/+8 puts to \$1.20 with a max loss of \$3.80 below 1170 or \$3,800 on THIS portion of the SPX trades. If we combine only the SPX position as they exist now, below 1170 they make a combined \$8,800. Confusing I know but I am looking at the different parts.</div> <div>BOT +4 OCT SPX 1175 Calls @28.00 (debit of \$11,200)</div> <div>Both moves result in net debit of \$78,400. Combined with outstanding net credit of \$39,440 the total position now has a net debit of \$38,460.</div> <div>I was afraid of whipsaw back higher and wanted to reduce naked calls on move back higher. Also I had an order to sell 6 OCT SPX 1130 straddles @ \$95.00 which never got filled so I was going to take in money again to keep a credit and short straddles but decrease the ratio further given the increased IV. I did not get filled so will look to make a move at the open. If filled on my order I would have gotten 6 straddles at \$95 for a net credit of \$57,000. I think with IV so high I might go back and try and sell 8 straddles tomorrow for more credit.</div> <div>The NDX position currently has an unrealized profit of about \$29,440.</div> <div>To keep the position working for me I want to sell straddles on SPX at the higher IV and hopefully take off some of the short calls still open on my other straddles. If we tumble tomorrow hard then I do not have to do anything as my short puts are now covered and I am still long NDX straddles so another crash of 700 points will work out just fine for me.</div> <div>SUMMARY of position as of 9/29:</div> <div>SPX Short - 10 1215 Straddles/Long +10 1210 Puts = net credit of \$17,600</div> <div>SPX Short - 8 1175 Straddles/Long +8 1170 Puts = net credit of \$1,200</div> <div>SPX Covered 4 short 1175 Calls at \$28 = net debit of \$11,200</div> <div>NDX Long 4 1675 Straddles at \$115.80 = current profit of \$29,440</div> <div>I have to graph all this so it will take some time. Still risk on move back higher on short calls but vol drop will help. Normally if market was down like 20 or so today I would not have made any adjustments at all but with a 100 point move in the SPX which is rare these days I had to wing off the puts. I did not get to sell more straddles for a credit so tomorrow will fix that.</div>
<div>Ri\$k Doctor</div>	<div><div>NDX/SPX straddle combo swap</div><div>« Reply #12 on: March 01, 2009, 11:43:23 AM »</div></div> <div>As in my post of September 25th, I never understood the logic of the trade. I don't really feel compelled to do all the work providing a post mortem on all this since the original problems that I sighted are the reasons that the trade went haywire. Bottom Line: You have to play limited risk in the short premium side of the trade otherwise you cannot contain it all. Read the rest of the post to October 21st and find that the trade ending up a loser with no further explanation.</div>

eejiofor

Portfolio Hedge

« on: February 25, 2009, 10:43:59 PM »

Charles,
If I have say 556 deltas in my SPY inventory that consist of some verticals, condors, Calendar spread and I want to hedge some off some of my deltas risk because I think 556 deltas is not within my comfort zone and I am afraid of big down move. What is the best way to reduce my delta while generating time decay if possible. Selling vertical call spread will tie up lots of margin... that is not an option. I am also considering using futures(/ESH9 or /NQH9) for reduce margin.

Your advise will be highly appreciated

Ri\$k Doctor

Portfolio Hedge

« Reply #1 on: February 26, 2009, 06:22:57 AM »

Please provide exact position (not prices). I would need to dissect it to see what makes the most sense.

eejiofor

Portfolio Hedge

« Reply #2 on: February 26, 2009, 05:42:36 PM »

Charles here is current position on SPY only

- +10 MAR 80 Put
- 10 MAR 82 Put
- 10 MAR 82 Call
- +10 MAR 82 Call
- +10 MAR 85 Call
- 10 MAR 86 Call
- 10 MAR 95 Call
- +10 MAR 96 Call
- +3 APR 86 Call
- 3 APR 87 Call
- +3 APR 89 Call
- 3 APR 90 Call

Ri\$k Doctor

Portfolio Hedge

« Reply #3 on: February 26, 2009, 06:35:18 PM »

QUOTE
+10 MAR 80 Put
-10 MAR 82 Put
-10 MAR 82 Call

+10 MAR 82 Call

#1) I think you meant for the 2nd 82 Call to be an 84 Call (which I assumed)...

eejiofor

Portfolio Hedge

« Reply #4 on: February 28, 2009, 04:11:40 AM »

Charles,

What I meant to say was that 500 deltas was my aggregate position delta I have positions on 9 other Stocks. However, when I beta-weighted my aggregate position delta to the SPY, I forgot to do that because I was in a panic mode. It was a lot less (215 deltas to be exact) . I usually beta-weight my portfolio to the SPY and manage to make adjustments to my overall Greeks, specifically delta, with SPY most times.

I am still learning your style of trading which I have embraced so much. I am learning how to dissect my individual positions.
Thanks for your response. I appreciate that so much

#2) Is the APR 89/90 Call Vertical Long like you have written it or did you mean to have it short to complete the APR Condor? If two Bull Spreads then selling them or 6 of the top one (completing the condor) will reduce your delta.

	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	T	V	X		
			Raw Calls	Total Net Contracts			Raw Puts										C	P		
11																				
12																				
13				PivotK	76											PivotK	76			
14			Month	MAR				Inc Adj	Y							MAR				
15	Raw Position									Butterfly Dissector									Work Sheet	
16	nC	rC	Adj	Cur	K	Cur	Adj	rP	nP	K	Bfly1	Bfly2	Bfly3	K	C	K	P			
35					78					78				78		78				
36					79					79				79		79				
37	10				80	10		10		80				80		80				
38					81					81	10	10		81		81				
39	(20)	(10)		(10)	82	(10)		(10)		82	20	20		82		82				
40					83					83	10	10		83		83				
41	10	10		10	84					84				84		84				
42	10	10		10	85					85				85		85				
43	(10)	(10)		(10)	86					86	10	10		86		86				
44					87					87	10	10		87		87				
45					88					88	10	10		88		88				
46					89					89	10	10		89		89				
47					90					90	10	10		90		90				
48					91					91	10	10		91		91				
49					92					92	10	10		92		92				
50					93					93	10	10		93		93				
51					94					94	10	10		94		94				
52	(10)	(10)		(10)	95					95	10	10		95		95				
53	10	10		10	96					96				96		96				
54					97					97				97		97				
59	Net									Net	140	140		Net		Net				
60																				
61				PivotK	76											PivotK	96			
62			Month	APR				Inc Adj	Y							APR				
63	Raw Position									Butterfly Dissector									Work Sheet	
64	nC	rC	Adj	Cur	K	Cur	Adj	rP	nP	K	Bfly1	Bfly2	Bfly3	K	C	K	P			
89					84					84				84		84				
90					85					85				85		85				
91	3	3		3	86					86				86		86	3			
92	(3)	(3)		(3)	87					87				87		87	(3)			
93					88					88				88		88				
94	3	3		3	89					89				89		89	3			
95	(3)	(3)		(3)	90					90				90		90	(3)			
96					91					91				91		91				
107	Net									Net				Net		Net				

It does not seem possible that your delta is so great. Please email me an image of your screen. BTW: You will not get any margin relief by using futures. It will increase your margin.

alassio

Time Butterfly

« on: February 11, 2009, 12:29:24 PM »

Hi Charles

While experimenting with calendar spreads I came across a position you may call a **Time Butterfly**: basically a long calendar spread in the first two months combined with a short calendar spread in the second and third month.

A simple example goes as follows (position setup at Nov 19, 2008 with DAX at 4000):

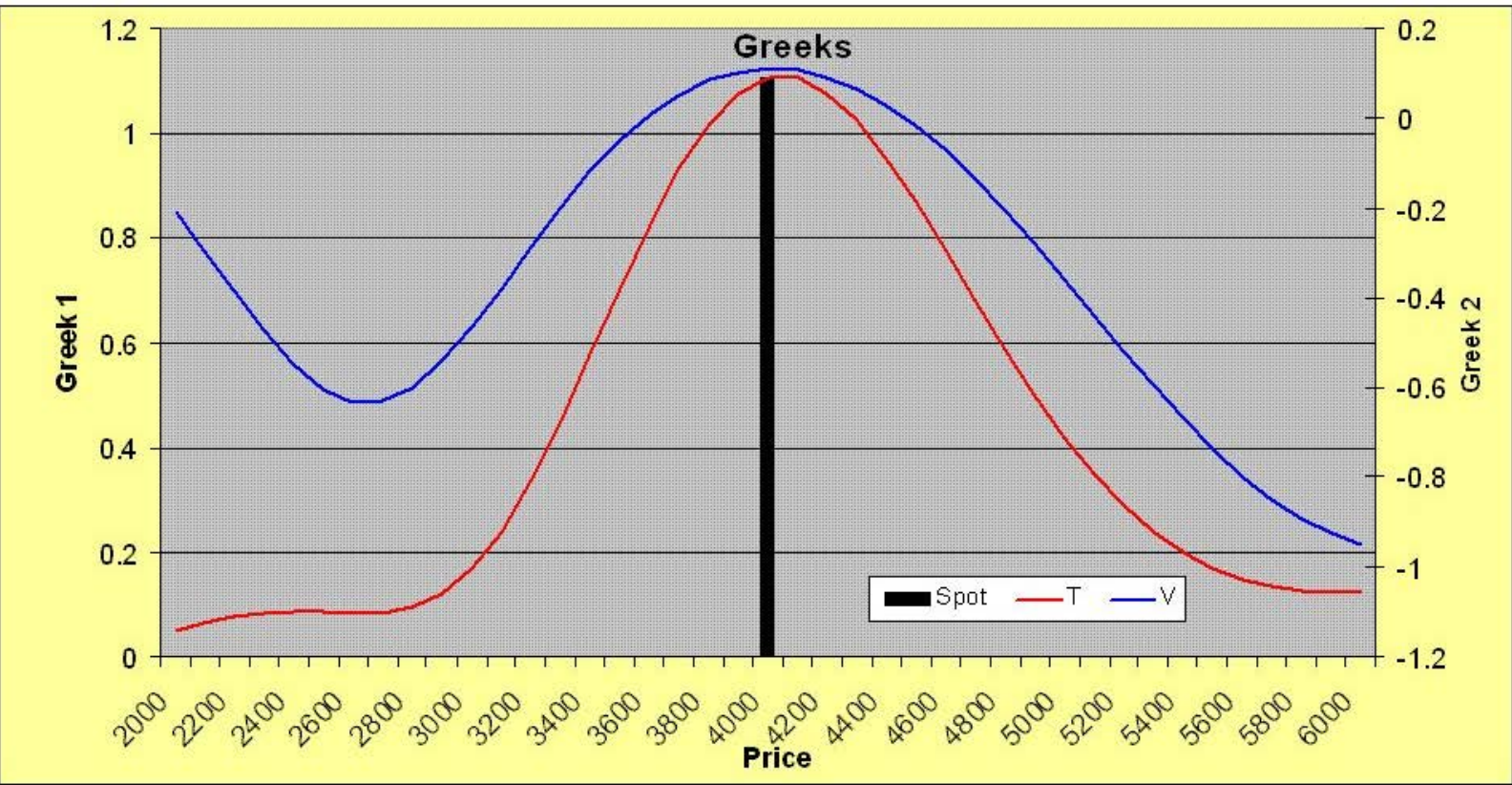
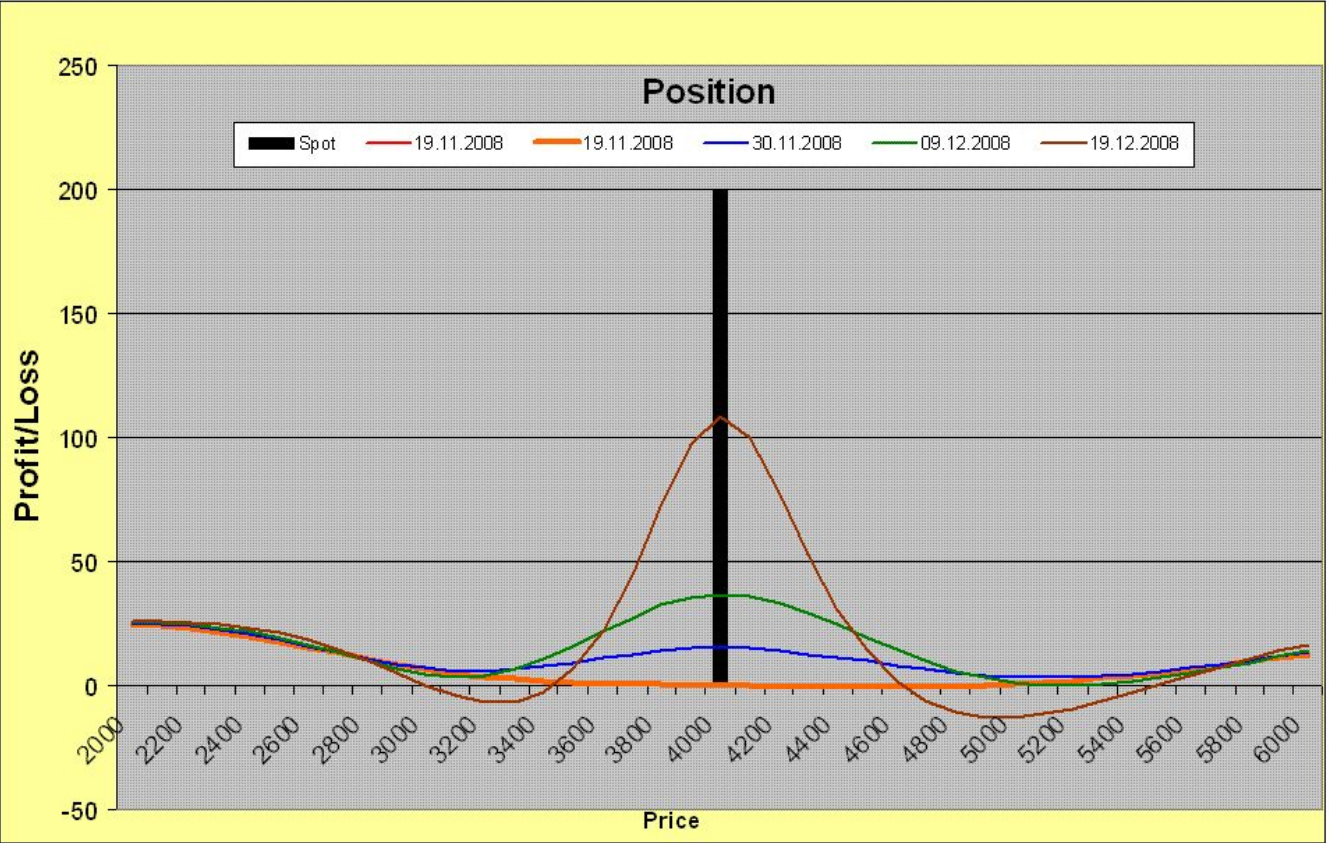
- 1 short DAX Put Dec08 at 4000 for -298.4
 - 1 long DAX Put Jan09 at 4000 for 366.4
 - 1 long DAX Call Jan09 at 4000 for 353.3 (could have used also Puts)
 - 1 short DAX Call Feb09 at 4000 for -450.8
- giving a total credit of -29.5

The greeks are as follows:

- Theta 1.1
- Vega 0.11
- Delta -0.002
- Gamma 0.00

The position should develop as follows until Dec08 expiration on Dec 20, 2008 (volatility skew disregarded):

Theta, Vega:



Delta, Gamma:

This position is almost Delta, Gamma and Vega neutral with positive Theta and protected wings. According to the projection towards Dec08 expiration, it has a very high probability of being a winner.

Now, what are the hidden risks of this position?

Since I cannot model the volatility skew and its effect upon the position, how is skew affecting this position?

Superficially, it looks very attractive, being fully protected at the wings with Theta on your side and you can adapt it to get the Vega you want (positive, neutral or negative). So it would match my criteria of being crash safe.

Can you point me (us) to the disadvantages/risk that may not be visible immediately?

Thanks a lot!

Time Butterfly

« Reply #1 on: February 13, 2009, 05:33:28 AM »

2 Things:

- 1.) Move either way big and the front month calendar collapses faster.
- 2.) In the States, the Margin of the short calendar is treated like a naked option because your furthest month is short and the OCC does not know if you will still be alive after the second expiry to cover the naked option that will still exist.

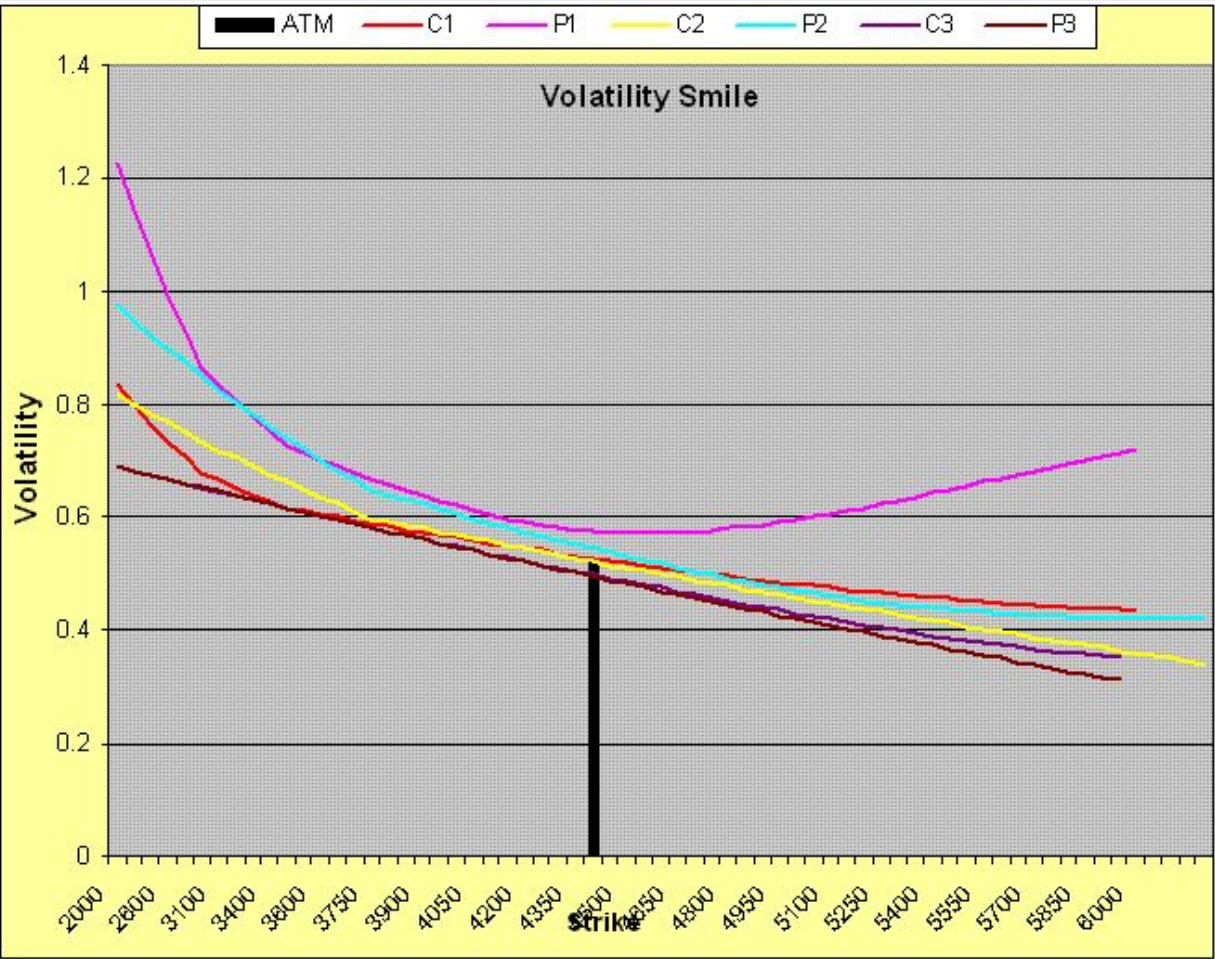
alassio

Time Butterfly

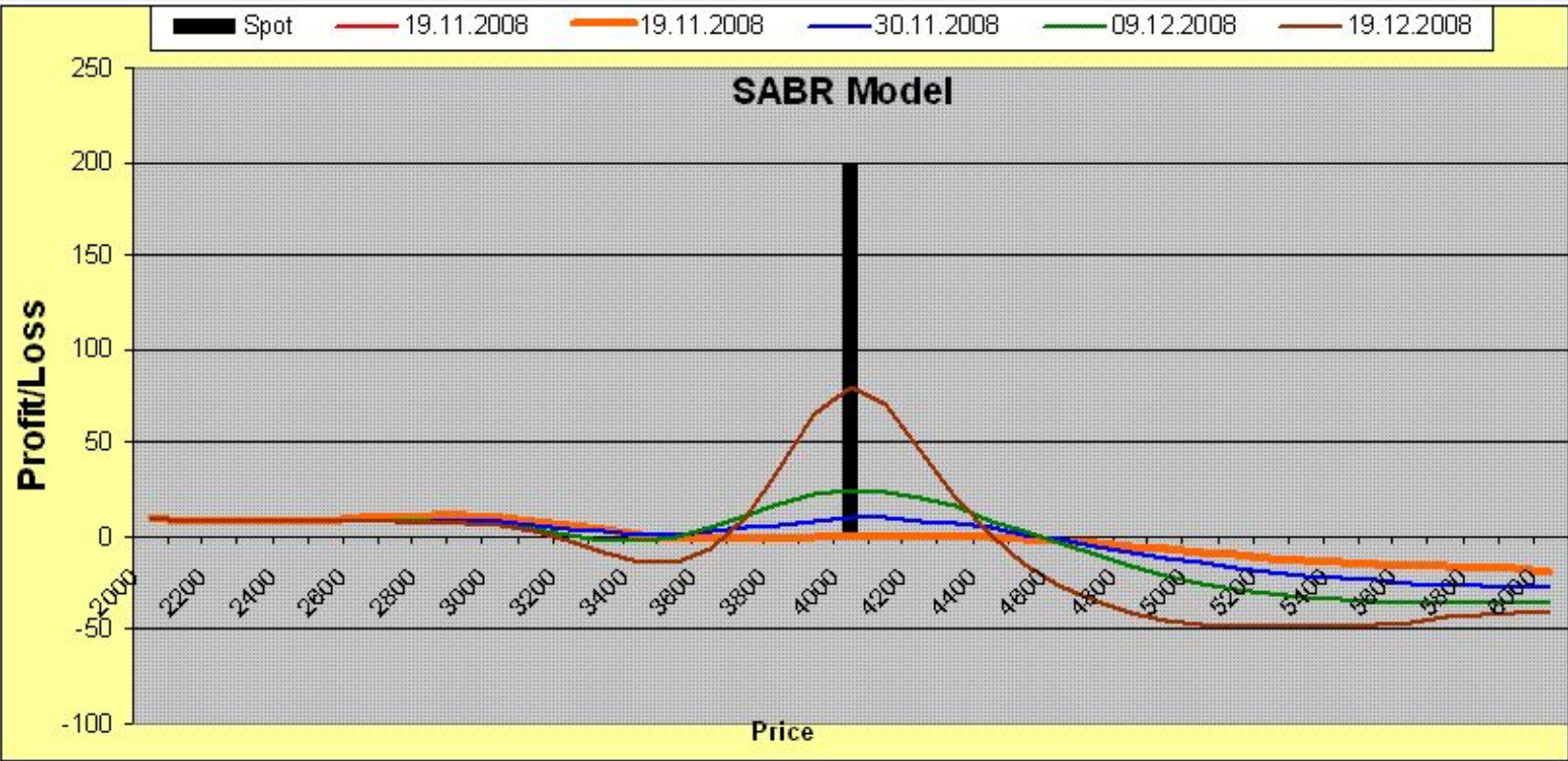
« Reply #2 on: February 24, 2009, 09:13:09 AM »

Since my standard model does not consider the volatility surface, I have done additional studies using the SABR model that takes the volatility smile into account.

This is the volatility smile:



The new model looks as follows:



Obviously, the new profit/loss projection towards front month expiration does not look as good any more. The upside is not really protected as was initially expected.

Having setup some paper trades right now, another risk becomes apparent: on paper, vega neutrality can be achieved across several expiration months. However, volatilities of different months can develop quite differently than expected, which may result in unexpected vega exposure.

Any better ideas to neutralize vega?

Ri\$k Doctor	<div><div>Time Butterfly</div><div>« Reply #3 on: February 24, 2009, 07:17:32 PM »</div><div>Isn't playing for corrections in IV what you are playing for? If it is, don't you need vega exposure? Is this the original position?: QUOTE (position setup at Nov 19, 2008 with DAX at 4000): 1 short DAX Put Dec08 at 4000 for -298.4 1 long DAX Put Jan09 at 4000 for 366.4 1 long DAX Call Jan09 at 4000 for 353.3 (could have used also Puts) 1 short DAX Call Feb09 at 4000 for -450.8 giving a total credit of -29.5</div></div>
alassio	<div><div>Time Butterfly</div><div>« Reply #4 on: February 25, 2009, 03:51:56 AM »</div><div>Yes, this is the original position. The idea of the Time Butterfly was to use the reverse calendar in the back months to reduce or neutralize the vega exposure in the front calendar and to get some wing protection at the same time. The reason to use the reverse calendar vs a backmonth strangle was to get smaller Theta loss and negative Theta. Maybe the 3 month spread should be replaced by a simpler spread using only 2 months, e.g. long/short front/back month butterflies.</div></div>
Ri\$k Doctor	<div><div>Time Butterfly</div><div>« Reply #5 on: February 25, 2009, 06:47:34 AM »</div><div>QUOTE Maybe the 3 month spread should be replaced by a simpler spread using only 2 months, e.g. long/short front/back month butterflies. Selling a back month butterfly will be too cheap to sell. If you really want to eliminate all your exposure, trade a box. Better yet, don't even make a trade. Sorry, my point is that exposure is what you want, what you need to make money. You have to be exposed to something in order to have a strategy that plays for something -- a bet. What do you want to bet on? Make that bet. If there is too much of an unwanted exposure that is a by product of the exposure that you want then trade it smaller. I hate to be the Holy Grail Police but if you are looking for the Hily Grail Position -- You are Busted:)</div></div>
alassio	<div><div>Time Butterfly</div><div>« Reply #6 on: February 25, 2009, 09:25:27 AM »</div><div>You have misunderstood. It's not about finding the Holy Grail. It's about finding the optimal balance between profit potential and risk. And it's about control and the hidden reality of a position which may look good in a model but may behave differently in reality (like assumed "vega neutrality" of multi-month positions). The basic assumption of this position is a sideways market in a wide range with current high volatility. The task that I try to solve is to get some control over the effects of volatility changes and very large (crash like) outbreaks out of the assumed sideways range. It's a study/experiment that tries to compare the proposed position's advantages/disadvantages with alternatives such us double slingshots, batwings or straddle/strangle swaps. And it's a test whether the model, which suggests a certain payoff, has anything to do with reality. This is important too, since a position is being engineered/assembled on the basis of an assumed future payoff function. I find it quite a challenge to model multi-month positions adequately. I hope to have clarified the intention of these posts.</div></div>
Ri\$k Doctor	<div><div>Time Butterfly</div><div>« Reply #7 on: February 26, 2009, 03:28:52 PM »</div><div>QUOTE I find it quite a challenge to model multi-month positions adequately. I agree that it is quite a challenge to model multi-month positions adequately.</div></div>

noam_a

slingshot hedge
« on: October 26, 2008, 02:20:04 PM »

Hi,

I'm new here in the forum and I hope you could answer my question:

I'm trying to apply the SlingshotHedge that learned from the great book "... The Hidden Reality".

Since buying an OTM put when you holding the underlying Index, it is the same as buying long call. I tried to implement it on my local market TA25 (Israel). by purchasing a butterfly and to adding an OTM long call at the far out wing, but it seems that the price here is too high:

I don't know how to load image to the post but here the position:
Long NOV 730 Call @ 50.20 (debit 5,020)
Short 2 NOV 750 Calls @ 37.20 (credit 7,440)
Long 2 NOV 770 Calls @ 29.60 (debit 5920)
Total Debit of 3500 while the underlying Index was @ 744

As you can see if it expires at 750 the position will still lose ~1500 NIS (Israeli Shekel).

So what is wrong with it? Is it only possible to use slingshot hedge with very wide strikes such as 650/750/850?

Thanks,
Noam

Ri\$k Doctor

slingshot hedge
« Reply #1 on: November 09, 2008, 04:27:52 PM »

Great question Noam,

You are right, this is not the best Slingshot and wider or higher strikes, in this case, would be more appropriately priced.

Your 20 point butterfly is only about 5.50 which is OK but the extra call for 29.60 makes it a more expensive way to be bullish than simply buying an OTM call.

For a Slingshot to be more attractive, the overall price should be a lot cheaper than what can be profited with the butterfly alone. For example if you could do the Slingshot for under 10 Shekels with a 20-point butterfly, then great. Or under 15 for a 30-pointer, etc.

You may wish to consider a higher strike configuration like the 750/770/790, but you would also have to be more bullish.

slingshot hedge

« Reply #2 on: January 05, 2009, 05:32:44 AM »

Hi DR and thanks, for your response.

I played a little bit with the slingshot strategy, and as I told you before, I'm using only options without holding the underlying stock, meaning, buy a butterfly and long call and put in the wings, to create the famous W.

I have 2 questions, for now;

- 1) I am thinking that I can finance the 2 far long options (call and put) by selling further deep call and put and in that way the total net position will cost less than the original strategy. What do you think?
 - 2) I searched here in the forum and in your book about how to repair that strategy, and couldn't find material about it.
 - 3) How you adjust this strategy, if for instance the underlying keeps staying between the first 2 short short calls and the 2nd 2 long calls, while the theta eats up your money? Perhaps you have some tips about the adjustment issue?
 - 4) Thanks, and Happy New Year!
- Noam

Ri\$k Doctor

slingshot hedge

« Reply #3 on: January 07, 2009, 03:00:09 PM »

QUOTE

- 1) I am thinking that I can finance the 2 far long options (call and put) by selling further deep call and put and in that way the total net position will cost less than the original strategy. What do you think?

Selling the Guts strangle would synthetically selling out your extra strangles (boxing them off), if they are the same strike.

	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	T	V	X
13				PivotK	740											PivotK	740	
14			Month	NOV				Inc Adj	Y							NOV		
15	Raw Position										Butterfly Dissector					Work Sheet		
16	nC	rC	Adj	Cur	K	Cur	Adj	rP	nP	K	Bfly1	Bfly2	Bfly3	K	C	K	P	
34					700					700				700		700		
35					710					710				710		710		
36		(1)	(1)		720	2		2	1	720				720		720		
37					730					730	1	1		730		730		
38	(1)	(1)		(1)	740	(1)		(1)	(1)	740	2	2		740		740		
39					750					750	1	1		750		750		
40	1	2		2	760		(1)	(1)		760				760		760		
41					770					770				770		770		
42					780					780				780		780		
59			(1)	1	Net	1	(1)			Net	4	4		Net		Net		

If, on the other hand, you sold deeper ITMs, than your extra wing strangles, that would create short condors, one of which is your original long baby butterfly.

If, on the 3rd hand (do you have 3 hands, Noam?), you sold less deep ITM Gut strangles, that would create long condors which defeats the purpose of your extra wing kickers (that would be a good thing in a stable market.

QUOTE

- 2) I searched here in the forum and in your book about how to repair that strategy, and couldn't find material about it.

Have you seen The Slingshot Movie?

	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	T	V	X
13				PivotK	740											PivotK	740	
14			Month	NOV				Inc Adj	Y							NOV		
15	Raw Position										Butterfly Dissector					Work Sheet		
16	nC	rC	Adj	Cur	K	Cur	Adj	rP	nP	K	Bfly1	Bfly2	Bfly3	K	C	K	P	
34		(1)	(1)		700				(1)	700				700		700		
35					710					710	(1)		(1)	710		710		
36					720	2		2	2	720	(2)		(2)	720		720		
37					730					730	(1)	1	(2)	730		730		
38	(1)	(1)		(1)	740	(1)		(1)	(1)	740	2	2	(2)	740		740		
39					750					750	(1)	1	(2)	750		750		
40	2	2		2	760					760	(2)		(2)	760		760		
41					770					770	(1)		(1)	770		770		
42	(1)				780		(1)	(1)		780				780		780		
59			(1)	1	Net	1	(1)			Net	(8)	4	(12)	Net		Net		

The simple answer is roll the short vertical to a further dated vertical, reducing the gamma if the market should grind its way to the long strike (on a retracement you will wish you did not roll because the closer short vertical declines faster). The price of the roll should be close to zero right between the 2 strikes of the vertical.

	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	T	V	X
13				PivotK	740											PivotK	740	
14			Month	NOV				Inc Adj	Y							NOV		
15			Raw Position													Butterfly Dissector		
16	nC	rC	Adj	Cur	K	Cur	Adj	rP	nP	K		Bfly1	Bfly2	Bfly3	K		C	K
34					700					700					700			
35					710					710					710			
36					720	2		2	2	720					720			
37		(1)	(1)		730				(1)	730	2	1	1		730			
38	(1)	(1)		(1)	740	(1)		(1)	(1)	740	3	2	1		740			
39	(1)				750		(1)	(1)		750	2	1	1		750			
40	2	2		2	760					760					760			
41					770					770					770			
42					780					780					780			
59			(1)	1	Net	1	(1)			Net	7	4	3		Net			

Ali

slingshot hedge

« Reply #4 on: January 13, 2009, 12:48:30 PM »

Noam,

QUOTE

1) I am thinking that I can finance the 2 far long options (call and put) by selling further deep call and put and in that way the total net position will cost less than the original strategy.
What do you think?

By "further deep", maybe you meant sell further OTM calls / puts to finance the kicker calls/puts ?

For example, if you have the 720/740/760 fly + extra calls at 760 and extra 720 puts, are you talking about selling the 780 calls to finance the 760 extra calls and selling the 700 puts to finance the 720 extra puts?

- Ali.

Ri\$k Doctor

slingshot hedge

« Reply #5 on: January 14, 2009, 09:44:34 AM »

QUOTE

By "further deep", maybe you meant sell further OTM calls / puts to finance the kicker calls/puts ?

For example, if you have the 720/740/760 fly + extra calls at 760 and extra 720 puts, are you talking about selling the 780 calls to finance the 760 extra calls and selling the 700 puts to finance the 720 extra puts?

- Ali.

That would be te same as the 2nd Dissection above.

	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	T	V	X
13				PivotK	740											PivotK	740	
14			Month	NOV				Inc Adj	Y							NOV		
15			Raw Position													Butterfly Dissector		
16	nC	rC	Adj	Cur	K	Cur	Adj	rP	nP	K		Bfly1	Bfly2	Bfly3	K		C	K
34					700		(1)	(1)	(1)	700					700			
35					710					710	(1)		(1)		710			
36					720	2		2	2	720	(2)		(2)		720			
37					730					730	(1)	1	(2)		730			
38	(1)	(1)		(1)	740	(1)		(1)	(1)	740	(1)	2	(2)		740			
39					750					750	(1)	1	(2)		750			
40	2	2		2	760					760	(2)		(2)		760			
41					770					770	(1)		(1)		770			
42	(1)	(1)		(1)	780					780					780			
59			(1)	1	Net	1	(1)			Net	(8)	4	(12)		Net			

slingshot hedge

« Reply #6 on: February 15, 2009, 06:07:56 AM »

(Ali @ Jan. 13 2009,3:48)
QUOTE

1) I am thinking that I can finance the 2 far long options (call and put) by selling further deep call and put and in that way the total net position will cost less than the original strategy.

What do you think?
By "further deep", maybe you meant sell further OTM calls / puts to finance the kicker calls/puts?

For example, if you have the 720/740/760 fly + extra calls at 760 and extra 720 puts, are you talking about selling the 780 calls to finance the 760 extra calls and selling the 700 puts to finance the 720 extra puts?

- Ali.

Yes Ali, by "further deep", I meant further OTM calls/puts. I thought a lot about the original strategy (sell an ATM butterfly and buy an extra strangle (the famous W). What do you think about the next position management procedures?:

Suppose the Ratioed Iron Butterfly is 5 strikes between body and wings, for example;
Short 1*680 Call, Short 1*680 Put; Straddle
Long 2*630 Puts, Long 2*730 Calls; Strangles

1) Do nothing until the index move 3 strikes in one direction (say up to 710).

2) After 3 strikes move RollUp the Call Strikes;
a) Roll up the 680 Calls to 710, i.e. Buy back the 680 Call 680 and Sell 1*710 Call

b) Roll up the 730 Calls to 740, i.e. Sell 2*730 Calls and buy 2*740 Calls. In that way reduce the money spent for rolling the 680 to 710.

3) On a continued further move upward:
a) Roll up the 710 Call to 720, i.e. Buy back 710 Call and sell the 720 Call.

b) Roll up the 740 Calls to 750, i.e. Sell 2*740 Calls and buy 2*750 Calls and continue that way for any further move upward.

When the puts become very very cheap over time you can start roll the 2 Long puts up towards the 1 Short put.

The ideal situation would be to stay with the long strangles that could eventually cost you zero and remain with a positive bias.

What do you think?

What are the disadvantages of this typr of position management approach?

Thanks for the response.

Noam.

slingshot hedge

« Reply #7 on: February 18, 2009, 07:38:59 AM »

QUOTE

1) Do nothing until the index move 3 strikes in one direction (say up to 710).

This Dissects to 25 Baby Butterflies protected by 1 FEB 630/730 Strangle:

	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	T	V	X
11																		
12		call points		\$ Risk				put points				Total				Net Contracts		
13				PivotK	680						1	Net Contracts		1		1		1
14			Month	MAR				include adj	Y							PivotK	680	
15			Raw Position									Butterfly				MAR		
16	nC	rC	Adj	Cur	K	Cur	Adj	rP	nP	K		Bfly1	Bfly2	Bfly3	K	C	K	P
25					620					620					620		620	
26					630	2		2	2	630					630		630	1
27					640					640	1	1			640		640	
28					650					650	2	2			650		650	
29					660					660	3	3			660		660	
30					670					670	4	4			670		670	
31	(1)	(1)		(1)	680	(1)		(1)	(1)	680	5	5			680		680	
32					690					690	4	4			690		690	
33					700					700	3	3			700		700	
34					710					710	2	2			710		710	
35					720					720	1	1			720		720	
36	2	2		2	730					730					730	1	730	
37					740					740					740		740	
38					750					750					750		750	
39					760					760					760		760	
59	1	1		1	Net	1		1	1	Net	25	25		Net	1	Net	1	1

QUOTE

2) After 3 strikes move RollUp the Call Strikes;

a) Roll up the 680 Calls to 710, i.e. Buy back the 680 Call 680 and Sell 1*710 Call

This Dissects to 31 Baby Butterflies (6 New Higher BBs protected by 1 FEB 630/700 Strangle (Call is Closer):

	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	T	V	X
11												Total				Net Contracts		
12		call points		\$ Risk				put points			1	Net Contracts		1		1		1
13				PivotK	680											PivotK	680	
14			Month	MAR				include adj	Y							MAR		
15			Raw Position									Butterfly					Work Sheet	
16		nC	rC	Adj	Cur	K	Cur	Adj	rP	nP	K	Bfly1	Bfly2	Bfly3	K	C	K	P
25						620					620				620		620	
26						630	2		2	2	630				630		630	1
27						640					640	1	1		640		640	
28						650					650	2	2		650		650	
29						660					660	3	3		660		660	
30						670					670	4	4		670		670	
31				1	(1)	680	(1)		(1)	(1)	680	5	5		680		680	
32						690					690	5	4	1	690		690	
33						700					700	5	3	2	700	1	700	
34		(1)	(1)	(1)		710					710	4	2	2	710		710	
35						720					720	2	1	1	720		720	
36		2	2		2	730					730				730		730	
37						740					740				740		740	
38						750					750				750		750	
39						760					760				760		760	
59		1	1		1	Net	1		1	1	Net	31	25		Net	1	Net	1

QUOTE
b) Roll up the 730 Calls to 740, i.e. Sell 2*730 Calls and buy 2*740 Calls. In that way reduce the money spent for rolling the 680 to 710. This Dissects to 36 Baby Butterflies (5 New Higher BBs protected by 1 FEB 630/720 Strangle (Call is moved higher):

	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	T	V	X	
11												Total				Net Contracts			
12		call points		\$ Risk			put points				1	Net Contracts		1		1		1	
13				PivotK	680											PivotK	680		
14		Month		MAR			include adj	Y								MAR			
15		Raw Position										Butterfly Dissector				Work Sheet			
16		nC	rC	Adj	Cur	K	Cur	Adj	rP	nP	K	Bfly1	Bfly2	Bfly3	K	C	K	P	
25						620					620				620		620		
26						630	2		2	2	630				630		630	1	
27						640					640	1	1		640		640		
28						650					650	2	2		650		650		
29						660					660	3	3		660		660		
30						670					670	4	4		670		670		
31						680	(1)		(1)	(1)	680	5	5		680		680		
32						690					690	5	4	1	690		690		
33						700					700	5	3	2	700		700		
34		(1)	(1)		(1)	710					710	5	2	2	1	710		710	
35						720					720	4	1	1	2	720	1	720	
36				(2)	2	730					730	2			2	730		730	
37		2	2	2		740					740					740		740	
38						750					750					750		750	
39						760					760					760		760	
59		1	1		1	Net	1		1	1	Net	36	25	5	Net	1	Net	1	

QUOTE
3) On a continued further move upward:
a) Roll up the 710 Call to 720, i.e. Buy back 710 Call and sell the 720 Call.
This Dissection remained at 36 Baby Butterflies protected by 1 FEB 630/710 Strangle (Call is rolled closer):

	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	T	V	X	
11												Total				Net Contracts			
12		call points			\$ Risk			put points			1	Net Contracts		1		1		1	
13				PivotK	680											PivotK	680		
14			Month	MAR				include adj	Y				Butterfly			MAR			
15			Raw Position									Dissector				Work Sheet			
16		nC	rC	Adj	Cur	K	Cur	Adj	rP	nP	K		Bfly1	Bfly2	Bfly3	K	C	K	P
25						620					620					620		620	
26						630	2		2	2	630					630		630	1
27						640					640	1	1			640		640	
28						650					650	2	2			650		650	
29						660					660	3	3			660		660	
30						670					670	4	4			670		670	
31						680	(1)		(1)	(1)	680	5	5			680		680	
32						690					690	5	4	1		690		690	
33						700					700	5	3	2		700		700	
34				1	(1)	710					710	5	2	2	1	710	1	710	
35		(1)	(1)	(1)		720					720	4	1	1	2	720		720	
36						730					730	2			2	730		730	
37		2	2		2	740					740					740		740	
38						750					750					750		750	
39						760					760					760		760	
59		1	1		1	Net	1		1	1	Net	36	25	5	Net	1	Net	1	

QUOTE
b) Roll up the 740 Calls to 750, i.e. Sell 2*740 Calls and buy 2*750 Calls and continue that way for any further move upward. [This Dissects to 41 Baby Butterflies \(5 New Higher BBs protected by 1 FEB 630/730 Strangle \(Call is moved higher\):](#)

	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	T	V	X
11																		
12		call points		\$ Risk				put points				Total				Net Contracts		
13				PivotK	680							1	Net Contracts	1		1		
14		Month		MAR				include adj	Y							PivotK	680	
15													Butterfly			MAR		
16		Raw Position											Dissector			Work Sheet		
16	nC	rC	Adj	Cur	K	Cur	Adj	rP	nP	K		Bfly1	Bfly2	Bfly3	K	C	K	P
25					620					620					620		620	
26					630	2		2	2	630					630		630	1
27					640					640	1	1			640		640	
28					650					650	2	2			650		650	
29					660					660	3	3			660		660	
30					670					670	4	4			670		670	
31					680	(1)		(1)	(1)	680	5	5			680		680	
32					690					690	5	4	1		690		690	
33					700					700	5	3	2		700		700	
34					710					710	5	2	3		710		710	
35	(1)	(1)		(1)	720					720	5	1	3	1	720		720	
36					730					730	4		2	2	730	1	730	
37			(2)	2	740					740	2			2	740		740	
38	2	2	2		750					750					750		750	
39					760					760					760		760	
59	1	1		1	Net	1		1	1	Net	41	25		5	Net	1	Net	1

QUOTE
The ideal situation would be to stay with the long strangles that could eventually cost you zero and remain with a positive bias.

What do you think?

What are the disadvantages of this type of position management approach?
The original position is a synthetic debit (the credit is from an embedded short 630/680 Box). An Iron Double Slingshot is synthetically a long (all call) butterfly plus a strangle. The rolling up from 680 to 710 (ITM Vertical) will cost you more than you will get for rolling up the 2 Short 730s to 740 (OTM Vertical) and again later when each are rolled up. Therefore, you will NEVER get the Strangle for Free. If you keep doing this, I don't think any of your long butterflies will bail you out of all your accumulated cost that is mounting.

noam_a

slingshot hedge
« Reply #8 on: February 18, 2009, 08:03:48 AM »

Thanks a lot for your reply.
It is very important for me to see how you see this thing, Thanks!
2 comments:

- 1) You are right. the first rolling (after 3 strikes move) will cost me, and that because I rolled the short call 3 strikes and the 2 long calls only 1 strike.
However, if the index continues moving up, the next roll will generate a credit because I am rolling 1 short call that is now 1 strike ITM and moving 2 long calls that were 3 strikes OTM but now they are only 2 strikes away. When I checked it on the options chain I saw that this 1 strike rolling up is with a credit.
- 2) The second issue is that as closer we get to the expiration date, the longs are getting very very cheap(almost wothless), by that time I will be rolling down the long calls (2*740 Calls to 730 Calls) in order to can stay with a long strangle.

What do you think?
I checked it (virtually) only one month. I intend to check it also in March, to see how it goes.

Thanks again for your comments, you are helping me a lot.

noam_a

« **Reply #10 on:** February 19, 2009, 12:23:09 AM »

QUOTE

Please send me a screenshot of the options chain or paste in the values. Don't worry about time going passing. We can interpolate the values. I am pretty sure that this can be a disastrous strategy.

The Underlying Index was 690 at the time of the Screenshot so please shift all strikes in the example up one strike from 680.

Thanks for you time and effort although you think it's a very bad strategy.

I couldn't find how to upload images so i sent you a screenshot of option chain to march.

Thanks,
Noam

slingshot hedge

« **Reply #11 on:** February 19, 2009, 08:33:23 AM »

QUOTE

Suppose the Ratioed Iron Butterfly is 5 strikes between body and wings, for example; 😞😞. The Underlying Index was 690 at the time of the Screenshot so please shift all strikes in the example up one strike from 680.

Short 1 MAR 690 Call, Short 1 MAR 690 Put; Straddle

Long 2 MAR 640 Puts, Long 2 MAR 740 Calls; Strangle

Cost:

MAR 690 Straddle: 5100, 640/740 Strangle 1620 (All prices in Blue Font)

Iron: 3480 Credit (5100-1620) is synthetically a 1520 Debit

Extra Strangle 1620 Debit

ביטול גורף

CALL					
תאריך B & S	הצעה		ביקוש		עסקה אחורנה
	כמות	מחיר	מחיר	כמות	
12.954	8	Asks	Bids	8	12.960
11.976.2	3	12160	12040	5	10.967
11.009.7	8	11240	11120	8	10.040
10.058.7	8	10300	10180	5	8.900
9.128.31	6	9400	9280	9	9.400
8.223.99	3	8480	8360	6	7.736
7.351.85	10	7620	7500	10	7.540
6.518.07	4	6760	6620	6	5.883
5.728.67	10	5980	5840	10	5.363
4.989.11	4	5180	5060	7	5.160
4.303.99	11	4480	4340	7	4.420
3.676.75	1	3720	3660	8	3.720
3.109.51	5	3140	3080	1	3.060
2.603	2	2560	2460	9	2.520
2.156.45	2	2020	1980	11	2.020
1.767.88	10	1580	1530	15	1.570
1.434.14	16	1200	1150	30	1.190
1.151.2	4	880	870	5	870
914.424	10	640	620	1	620
718.797	1	440	410	51	450
559.204	11	310	300	3	300
430.619	15	210	200	1	218
328.275	51	140	125	10	140
247.783	80	100	75	80	100
185.213	16	80	35	1	55
137.126	60	60	30	1	54
100.578	91	55	10	5	40
73.0981	40	40	2	5	26
52.6528	19	40	2	12	25
37.596	1	35	2	3	29
26.6171	1	35	0	0	30
18.6885	1	35	0	0	10
13.016	1	35	0	0	45
8.99422	1	35	0	0	2

סטיית
תקן
גלומה

חיתוש ופיקעה
MAR 560.0
MAR 570.0
MAR 580.0
MAR 590.0
MAR 600.0
MAR 610.0
MAR 620.0
MAR 630.0
MAR 640.0
MAR 650.0
MAR 660.0
MAR 670.0
MAR 680.0
MAR 690.0
MAR 700.0
MAR 710.0
MAR 720.0
MAR 730.0
MAR 740.0
MAR 750.0
MAR 760.0
MAR 770.0
MAR 780.0
MAR 790.0
MAR 800.0
MAR 810.0
MAR 820.0
MAR 830.0
MAR 840.0
MAR 850.0
MAR 860.0
MAR 870.0
MAR 880.0
MAR 890.0

חודש
גלום

687.68
677.30
677.42
675.42
689.61
681.67
688.50
680.43
683.52
689.09
689.08
688.98
689.07
688.87
689.46
689.76
688.55
689.15
684.55
679.18
675.07
680.83
678.03
676.62
674.57
674.35
679.81
678.30
682.65
685.28
691.89
687.68
675.03
690.59

הצעה / ביקוש

עסקה אחורנה

PUT / FUTURE					
תאריך B & S	הצעה		ביקוש		עסקה אחורנה
	כמות	מחיר	מחיר	כמות	
32.2476	81	Asks	Bids	190	165
53.9066	1	210	190	99	210
86.9205	17	270	250	10	270
135.481	68	350	310	84	330
204.556	51	440	410	1	410
299.757	29	540	500	47	540
427.132	22	660	630	1	660
592.877	44	830	780	11	810
802.998	13	1010	970	7	980
1.062.96	11	1250	1210	4	1.220
1.377.35	15	1490	1450	5	1.480
1.749.63	22	1830	1740	14	1.790
2.181.92	13	2200	2140	1	2.120
2.674.93	17	2620	2560	10	2.600
3.227.89	14	3120	3020	33	3.040
3.838.85	5	3640	3560	8	3.560
4.504.63	11	4300	4160	11	4.300
5.221.21	11	4960	4880	5	4.920
5.983.95	10	5740	5620	6	6.130
6.787.84	10	6540	6440	6	7.496
7.627.77	9	7420	7280	9	8.757
8.498.	3	8280	8180	8	9.098
9.395.88	5	9400	8760	5	10.300
10.314.9	5	10400	9780	5	11.400
11.251.8	5	11320	10660	5	12.560
12.203.2	5	12340	11720	5	13.580
13.166.2	5	13280	12620	5	14.020
14.138.3	5	14320	13680	5	15.156
15.117.3	5	15380	14600	5	15.720
16.101.8	5	16300	15680	5	16.460
17.090.3	5	17260	16600	5	16.800
18.081.9	5	18300	17660	5	18.200
19.075.8	5	19360	19000	1	20.500
20.071.3	5	20220	19660	5	19.900

עסקה אחורנה

687.68
677.30
677.42
675.42
689.61
681.67
688.50
680.43
683.52
689.09
689.08
688.98
689.07
688.87
689.46
689.76
688.55
689.15
684.55
679.18
675.07
680.83
678.03
676.62
674.57
674.35
679.81
678.30
682.65
685.28
691.89
687.68
675.03
690.59

Total Cost (Risk) **3140**

QUOTE

- 1) Do nothing until the index move 3 strikes in one direction (say up to 710).
- 2) After 3 strikes move Roll Up the Call Strikes;
 - a) Roll up the 690 Calls to 720, i.e. Buy back the MAR 690 Call and Sell 1 MAR 720 Call

Looking at the Option Chain, we can interpolate (not exactly correct method but close) by looking at the 690 Call that that is what the 720 might be priced at if the move happened today. The 660s (in Green Font) would be what the present 690s would go to so the 660/690 vertical spread??s current price would be a good indicator as to what it might cost to roll after the 30 point move (today ?? it would cost more over time as ITM spreads increase toward full value over time): Cost: **1900** (4410-2510). Running Cost: **5040** (3140 + 1900).

QUOTE

- b) Roll up the 730 Calls to 740, i.e. Sell 2×730 Calls and buy 2×740 Calls. In that way reduce the money spent for rolling the 680 to 710.

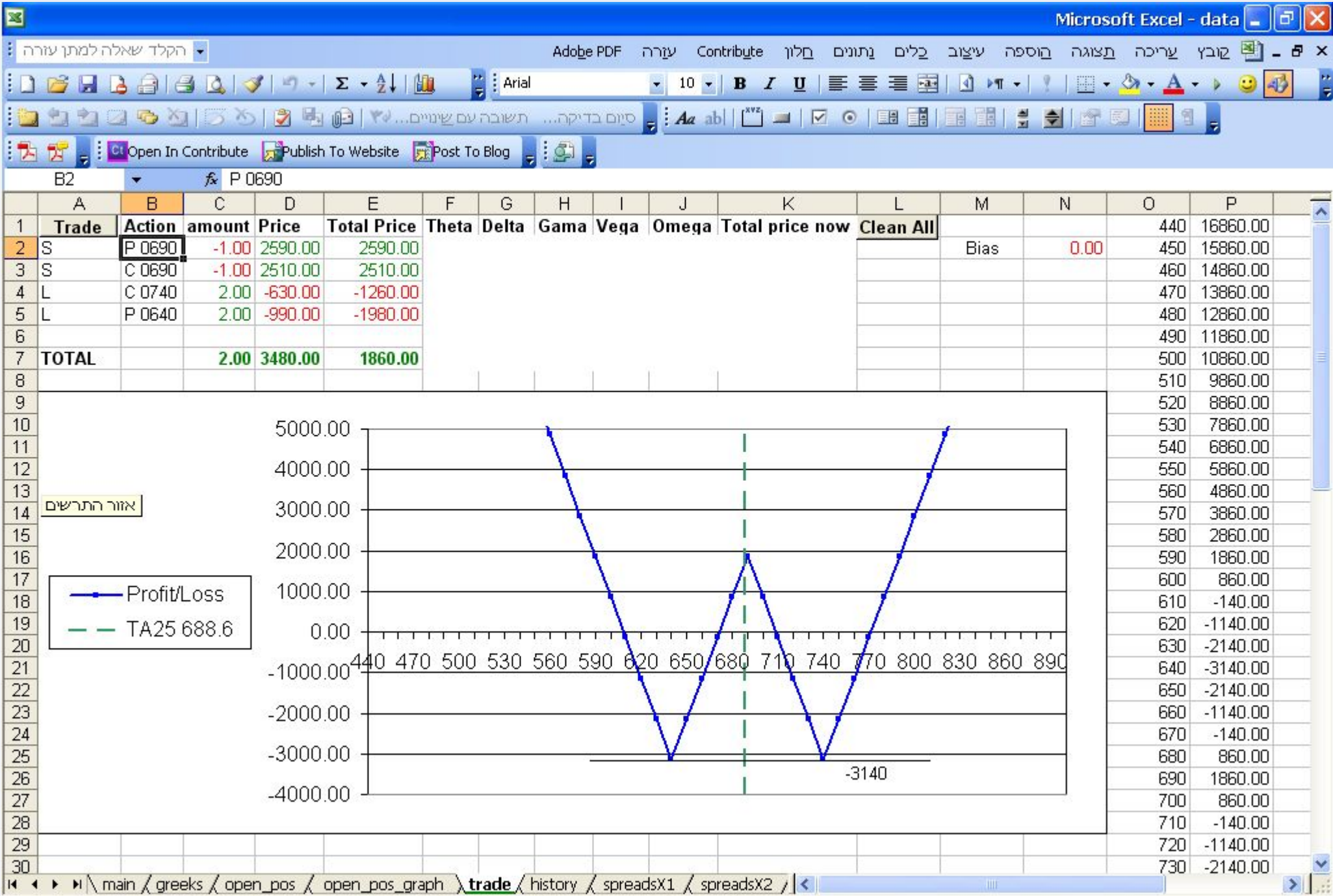
The 730s (in Purple Font) would be what the present 700s would go to so the 700/710 vertical spread??s current price would be a good indicator as to what it might cost to roll after the 30 point move (today ?? the credit would be less over time as OTM spreads decrease toward worthless over time): Credit: **1650** (2x(2000-1175)). Running Cost: **3390** (5040 - 1650). At this point, your cost has increased from **3140 to 3390** and the cost would continue to escalate at an increasing rate due to the properties of ITM and OTM spreads as time passes.

slingshot hedge

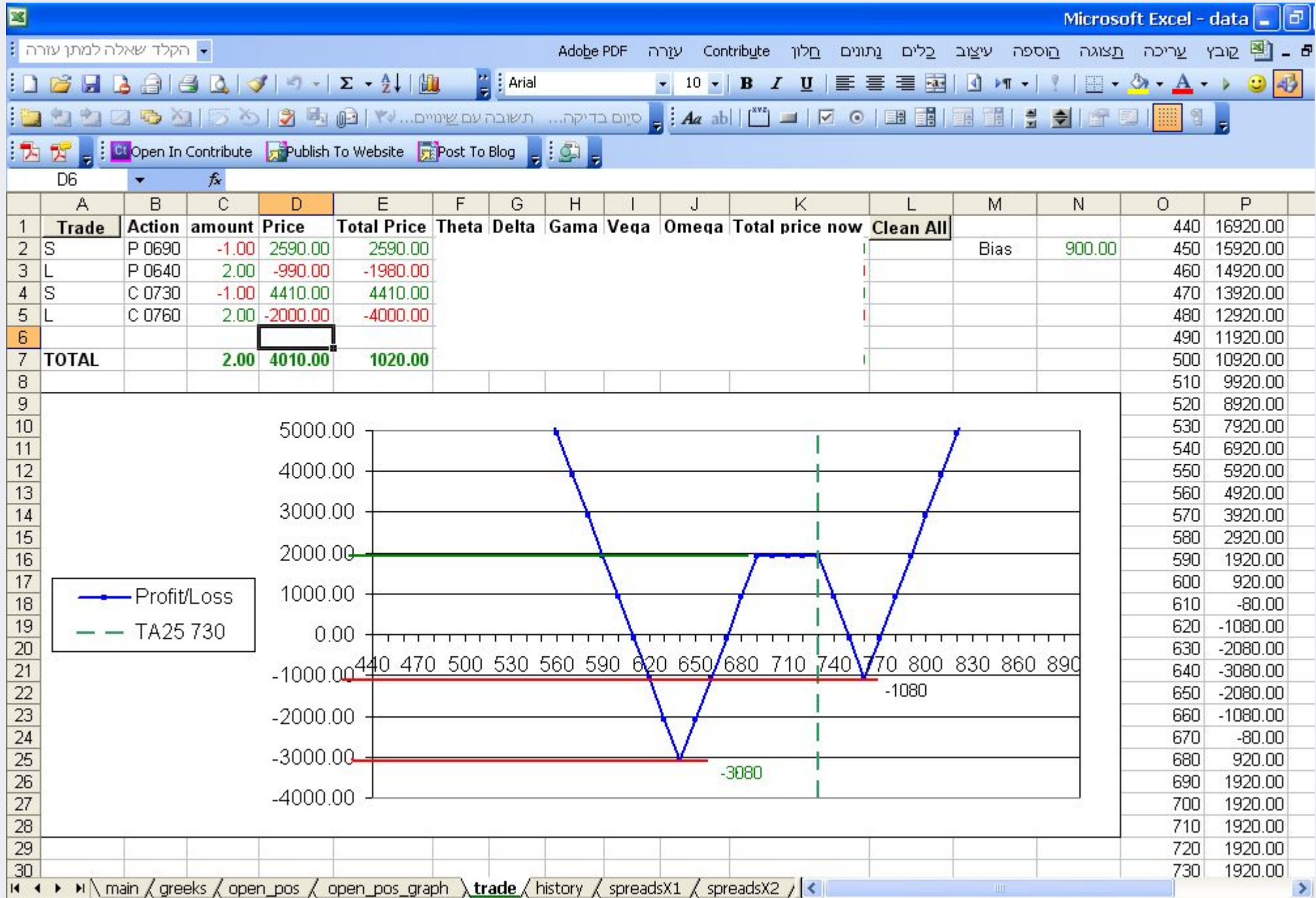
« Reply #12 on: February 20, 2009, 12:34:43 AM »

Hi RiskDoctor,

1) Yes, you are right in the way you implement my position and the management.



So now the risk has decreased to 1080 to the up-side and the profit range becomes 730 to 690 that the market can dance in (and the premium increased to 1920):



From now, in each adjustment the cost will be reduced.
The next time that I will increase my cost is when I roll down the 2 Long Calls or Roll up the 2 Long Puts. I'll do this when the time will kill the price of the options, and I will roll them in order to reduce the risk.

I will close the whole position anytime that I see an opportunity to close the position for 80% of the premium I received (and will have if I stay until expiration).

I agree that this price speculation is not accurate but it gives us an idea what is going to be the difference in the prices.

What do you think?
Where might I be doing wrong?

Thanks,
Noam.

Ri\$k Doctor
Administrator

slingshot hedge
« **Reply #13 on:** February 20, 2009, 03:28:35 PM »

QUOTE
From now, in each adjustment the cost will be reduced.
NO! If you keep doing the same thing as the rally continues, your costs will be more each time because time decay makes the short-roll-up cost more and the long-roll-up generate a smaller gredis. Yes it moves up your sween spot but if the market corrects, you will have more to lose if you have not yet rolled up the put side.

noam_a

slingshot hedge
« **Reply #14 on:** February 22, 2009, 05:27:03 AM »

Thanks RiskDoctor,
I'll check it virtually on the next months to see the impact of time decay.
Anyway, thanks for your time and for your help!

Noam.

vesc

Commodity calendar spreads

« on: January 24, 2009, 04:53:58 PM »

Hello, wondering how people deal with option positions across different contracts in commodities. The underlying is different, so are they always treated as completely separate positions? Are there ways of incorporating the correlation between the contracts? Particularly for dissection purposes?

Thanks again,

Vesc

OptionMechanic

Commodity calendar spreads

« Reply #1 on: January 25, 2009, 09:44:05 PM »

Those are very sharp questions, vesc:
QUOTE
wondering how people deal with option positions across different contracts in commodities.

We can divide the spreads in two broad groups:

- Intermarket Spreads
- Intramarket Spreads

Intramarket Spreads are easier in that they involve the same Underlying in terms of Unit size.
Intermarket Spreads involve one Market against another, and that present more complications in terms of ratios used. So how do you incorporate the correlation in between contracts?
As follows:

- $\text{Intermarket Quotient} = \frac{\text{Price}(1)}{\text{Price}(2)} \times \frac{\text{Unit}(1)}{\text{Unit}(2)} \times \frac{\text{Volatility}(1)}{\text{Volatility}(2)} \times \frac{\text{Delta}(1)}{\text{Delta}(2)}$

The quotient tell you how many contracts to Buy for each one you Sell.
Once the ratio is establish via the IQ, and the differential is realized, then it follows that Dissections are carried out per Leg of the Spread in question.

- OptionMechanic

vesc

Commodity calendar spreads

« Reply #2 on: January 27, 2009, 11:15:22 AM »

Hi, I think I managed to follow that right up to "then it follows that Dissections..." Would it be possible to see a simple example? Actually, after re-reading, what do you mean by "the differential is realized?" I think I'm over-analyzing at this point. Any additional help with this would be appreciated.

Thanks,

Vesc

OptionMechanic

Commodity calendar spreads

« Reply #3 on: January 27, 2009, 08:18:53 PM »

In Spread or Pairs Trading, you are not concerned with direction but by the Differential or Spread in between contracts. Given the ratio by the IQ you establish a point Differential and that is where your P/L lies, so you capture profits or minimize loses by Dissecting each leg to better reflect the Convergence/Divergence of the contracts as the Differential expands or contracts due to Delta and Vega dynamics.

Charles went trough a Pairs Trade 4, GM vs. F in the ongoing RiskDoctor Coaching CLinics program that captures the essence of this process and generated profits in the 400% level within days. If it does not get published in the open RDCC Forum, I will run a CRACK or HUG/HOG trade for illustration purposes.
Incidentally, the RDCC Coaching, now in progress, conveys a quality of trading not found anywhere else. Regardless of cost. It opens a hidden world you never though it existed.

alassio

Commodity calendar spreads

« Reply #4 on: February 03, 2009, 02:14:46 AM »

QUOTE
Charles went trough a Pairs Trade 4, GM vs. F in the ongoing RiskDoctor Coaching CLinics program that captures the essence of this process and generated profits in the 400% level within days. If it does not get published in the open RDCC Forum, I will run a CRACK or HUG/HOG trade for illustration purposes.

Yes, I would like to see an example trade posted to get the idea.

Thanks, alassio

Ri\$k Doctor

Commodity calendar spreads

« Reply #5 on: February 06, 2009, 12:20:02 PM »

Pairs Trade 4, GM vs. F

vesc

Dissecting Americans

« on: February 05, 2009, 08:57:19 AM »

Charles, it appears that dissection is very useful tool, but mainly for European style options. Deep in the money American options pose the risk of early exercise. Wondering if you run a couple scenarios with dissection whereby you'd convert the deep ITM options to the corresponding underlying and then dissect the nearer-to-the-money options. Is this a way to go, or is there a better way of handling the early exercise nuance?

Thanks,

Vesc

Ri\$k Doctor

Dissecting Americans

« Reply #1 on: February 05, 2009, 09:45:54 AM »

Dissection removes the ITMs to view risk extrinsically but the Raw Positions remain in full view in order to monitor Early Exercise Risk.

Ioleczek

Scale Trading with Options

« on: January 20, 2009, 08:27:15 AM »

Background - Scale trading: buying on a scale down and selling on a scale up. A scale trader with sufficient capital to withstand severe declines will ultimately show a profit as falling prices must alter supply/demand and ultimately result in a rallying price.? Robert Wiest

Interesting markets to scale trade right now are the Natural Gas (NG) and Crude Oil (CL) Markets. If you believe that these markets will eventually rally from their lows then a scale trade can be initiated.

Conventional scale trading would buy NG say, every .50 down and sell every .50 up. This would be called an oscillation profit. You must have enough margin to potentially buy contracts all the way down to zero. That is why you should only scale trade with commodities and not with common stocks.

You could also use ETFs such as UNG as a substitute for the NG futures and USO as a substitute for CL futures. These ETFs have options. You have to figure out the ratios if you use the ETF??s. I figure that the current ratio for UNG is 4.14. That is, if NG futures is at 5.00 then UNG should be at 20.70. For Oil, I figure the ratio is .80 ?? if CL is at 40 then USO should be around 32.00.

Natural Gas ?? if you are using the ETF; UNG and your scale is set, say, at buying 100 shares every 2 pts down you would acquire 100 shares at 22.00, 20.00, 18.00 and sell 100 shares at 20.00, 22.00, 24.00 for your oscillation profits.

Now for the option part. Instead of buying 100 shares every 2 points down you could also sell a put when the price hits 22.00. Sell another put when it hits 20.00 etc. This would bank your oscillation profits immediately. If the price continues down, you would be put the stock but you were going to buy it anyways and then you would be able to sell a call against it as well, banking another profit.

My question is: I just wonder what would be the most efficient way to scale trade with options. When you sell a put, the question comes up; At what price, what expiration??? I would think you would want to make at least your oscillation profit amount. Are there better ways to use options to scale trade? Is this insane?

Ri\$k Doctor

Scale Trading with Options

« Reply #1 on: January 20, 2009, 10:30:30 AM »

I think it is a recipe for disaster, especially if you tried it recently in the banking sector. Your deep pockets would be pretty shallow right now even in OIL which has dropped from close to \$150 to 33 and currently at 40 after only visiting 50ish or so.

One caveat; when does Robert Wiest stop? I am in favor of scaling when a maximum loss is predetermined. So if someone were to take 7% of their trading capital, for example \$7000 of a \$100,000 account, it would be OK to enter a limited risk position, like a vertical and put on a fraction of the size, risking a fraction of the \$7000. As the market goes against the first trade, the person could add another fraction of the \$7000 and keep scaling in as the full \$7000 has been met. If it keeps going, the person is basically out of the position (that may come back) and the full \$7000. If it goes the other way, toward profit or getting back some of the losses then they can scale out that way too.

I would not scale with naked shorts and I would treat scaling as simply another tool and NOT being the magic in making money. I would rather emphasize that the options strategies and market analysis and the adherence of appropriate rules and following a game plan with action points as the means to consistent profitability.

OptionMechanic

Scale Trading with Options

« Reply #2 on: January 26, 2009, 11:15:41 PM »

My Research of successful traders show that All use Anti-Martingale Betting. Just the opposite of Robert Wiest's approach.

Ioleczek

Scale Trading with Options

« Reply #3 on: January 28, 2009, 07:35:49 AM »

I don't think scale trading is a [Martingale System](#).

You are not doubling your bets. It is more like dollar cost averaging although you are buying every scale down and selling every scale up.

With regards to oil - if you believe that oil will never go to zero and will eventually go above \$50 again, then a scale trade could be accomplished as long as you had the required capital and time.

Robet Wiest's approach is not the best. "Be a Winner Trading Commodities" by Ralph Fessenden is a much better approach. Lower drawdowns and larger profits.

I am scale trading oil right now in my IRA accounts.
I don't need the capital for awhile so the drawdowns don't affect me. I designed the scale so that I wouldn't run out of capital. I only need to check it every so often. I bank the oscillations and when oil eventually gets to \$50 or above I will have exited the scale. If it never gets to \$50, then I can still bank profits by selling calls against my long underlying.

Ri\$k Doctor

Scale Trading with Options

« Reply #4 on: January 28, 2009, 08:09:03 AM »

I agree that the strict definition does not fit. Deep pockets and an iron cast stomach make it more suitable for this method of scale trading.

I do hope that you are successful with this.

This method will remind many of 'gamma scalping' when one owns straddles. However, this has no premium eroding (so you have that going for you).

If you don't mind, please post your trades, as they happen, so we can follow your progress.

For those that do not have the deep pockets and a cast iron stomach: Buy cheap way OTM Strangles to provide protection from disaster.

If you have many more contracts than the stock, it will actually make a bundle in a night-mare type move.

Ioleczek

Scale Trading with Options

« Reply #5 on: January 28, 2009, 11:17:30 AM »

QUOTE
Ri\$k Doctor: If you don't mind, please post your trades, as they happen, so we can follow your progress.
I would be happy to. First I need to lay the foundation of the scale trade:

Scale trading USO - an ETF for Oil

I figured that the ratio of CL/USO is 1.30. So if oil is at \$40, then the ETF should be around \$30.76. You can scale trade the Futures, and I have in the past, but you have to adjust your scale periodically due to rollovers. Scale trades should be made in the lower 1/3 (the lower the better) of the historical prices of the commodity in question. Also, I wouldn't scale trade equities, only commodities. Equities CAN go to zero, commodities will not due to Supply/Demand. I can't imagine oil not being needed in the near future.

I should point out that this is my first scale trade using an ETF. There is a risk that they could close down the USO ETF and you would be stuck with the positions that you have on. USO is a popular ETF trading around 20Mil to 40Mil shares/day. Also, I don't know how the 1.30 ratio holds up at lower prices. There might be a need for an adjustment. Right now I'm looking at my screen and CLH9 is at 43.20 and USO is at 30.38 (ratio = 1.42)
Also, be aware that most EVERYONE says that scale trading should not be attempted.
It takes a lot of discipline and could tie up your capital for quite a long time. If you are a day trader you will not like this approach at all.

I figured that \$50 oil would be a good place to start the scale. That corresponds to \$38.46 for the USO ETF (ratio = 1.30). I also assumed that oil could go as low as \$15.00.

Various Scales
Futures - USO
\$50.00 - \$38.46
\$47.50 - \$36.54
\$45.00 - \$34.61
\$42.50 - \$32.69
\$40.00 - \$30.77
\$37.50 - \$28.84
\$35.00 - \$26.92
\$32.50 - \$25.00
\$30.00 - \$23.10
\$27.50 - \$21.15
\$25.00 - \$19.23
\$22.50 - \$17.31
\$20.00 - \$15.39
\$17.50 - \$13.46
\$15.00 - \$11.54

Assume that you buy 100 shares of USO every scale down, i.e., 100 shares @ \$38.46, 100 shares @ 36.54, 🤪?100 shares @ 11.54, you would need, worst case, \$37,501 in margin. Of course, it may never get to \$11.54 but if it did, you would need that much margin. The profits occur when the price rebounds from say \$34.61 to \$36.54. Then you would bank a profit of \$193. If the price drops back down to \$34.61 you would buy another 100 shares, and so on. The price could oscillate between these two prices several times. You would bank \$193 each time. You would be out of the scale when the price reached \$40.38. At this point you would have cashed out the last 100 shares. Myself, I would not cash out this last one but would let it ride followed by a stop.

You can set the scale at whatever you want. If you reduce the scale to say every \$1.00 from \$39.00 to \$10.00, you will bank more oscillating profits but you will need double the margin (\$73,500 vs. \$37,500).

I should add that the classic scale trade is to buy every scale down and sell every scale up. I indicated in another post that there is a better way. Ralph Fessenden??s way is to not buy at say \$38.56 but to wait until the price goes halfway between \$38.46 and \$36.54 and then put a BUY STOP at \$38.46. The reason for this is that if you get into a severe downturn in the market you can buy your shares at a lower price as well as reducing your margin. In the above example, if the market went STRAIGHT down to \$24.05, and then rose to \$25.00, you would buy ALL 800 shares at \$25.00. Your drawdown would have been reduced from \$25,383 to \$20,000. You would keep your profit targets the same, however, at \$26.92, \$28.84??.. all the way to \$40.38. If the market rallied at this point straight up, your last profit would be \$1,538 [\$40.38 - \$25.00 x 100] You would also have cashed out the other 700 shares at the various profit targets.

The reason I posted at the riskdoctor forum is that I was interested in learning if you can substitute options instead of always going long the underlying. I currently don??t see an advantage to buying the underlying and selling a call, or simply selling a put at the various scales. This might be an advantage in a regular account but this is my IRA account and when you sell a put you put up full margin. I CAN see an advantage in that if I am long at the various scales I can sell calls against them if the market decides to go into the doldrums. At least I can be making some premium waiting for the market to recover.

I would be interested in hearing any and all suggestions concerning options and scale trading.

vesc

Scale Trading with Options

« Reply #6 on: January 29, 2009, 11:28:35 AM »

The issue with the options is they add the time-frame component. In other words, your underlying hits the scale you want to trade, but you've got time to expiry. You'd have to buy back the put/call at a loss (well, that depends on how much time has transpired) and do the scale anyway. Otherwise, if the underlying is volatile enough to hit your scales several times prior to expiry you'd miss them waiting for the expiry date.

Other thoughts... condors and leg out or roll as you trade the scales. I'm thinking this would get nasty as you'd have to consider skew and other factors to really understand how much upside you have by layering the scale trading with the options.

One last thought... someone on this forum probably has a bunch of better ideas!
-Vesc

Ri\$k Doctor

Scale Trading with Options

« Reply #7 on: January 29, 2009, 01:54:53 PM »

An Iron Condor is a limited risk approach that somewhat mimics the basic approach in that it depends on mean reversion. Put it on, walk away and wait. Let the market do it's thing.

Hedging a Ratio Back (LongMore) Spread

First, a big "thank you" to Mr Cottle. I had traded SPX dual credit spreads (aka iron condors) for 3 good years until I read your book towards the end of 2007 . That convinced me to ratio the spreads to have more longs then shorts (more wings). Needless to say, that move saved my ass in 2008. Now to my question: I am trying to figure out the best way to hedge my ratio verticals. e.g. spot @ 100. I sell 105c and buy 2 115c for zero debit or better. Now, I have a dead zone (@expiration) between 110 and 115. This dead zone under the graph is the area I am contemplating to hedge. I thought of a number of possibilities: a fly, centered around 115. A calendar, @ around 115, or a diagonal (short 110 front long 115 back month)? What say you, master?

Hedging a Ratio Back (LongMore) Spread

The butterfly as a hedge reduces the dead zone to \$5 but makes it makes less money to the up-side which is the original objective.

	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	T	V	X
16	nC	rC	Adj	Cur	K	Cur	Adj	rP	nP	K		Bfly1	Bfly2	Bfly3	K	C	K	P
34					85					85					85		85	
35					90					90					90		90	
36					95					95					95		95	
37					100					100					100		100	
38	(1)	(1)		(1)	105					105					105	(1)	105	
39	1	1	1		110					110					110	1	110	
40			(2)	2	115					115					115		115	
41	1	1	1		120					120					120	1	120	
59	1	1		1	Net					Net					Net	1	Net	

Perhaps a slingshot meets your objectives in that it wins in that particular dead zone with the bull spread in column F and has the embedded back spread in column E. The whole thing behaves like a butterfly (column O) and a long call (column T):

	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	T	V	X
16	nC	rC	Adj	Cur	K	Cur	Adj	rP	nP	K		Bfly1	Bfly2	Bfly3	K	C	K	P
34					85					85					85		85	
35					90					90					90		90	
36					95					95					95		95	
37					100					100					100		100	
38	1	1		1	105					105					105		105	
39	(2)	(2)	(1)	(1)	110					110	1		1		110		110	
40	2	2	2		115					115					115	1	115	
41					120					120					120		120	
59	1	1	1		Net					Net	1		1		Net	1	Net	

vesc

Dissecting in steps

« on: January 24, 2009, 04:50:12 PM »

Charles or anyone else,

Is there an order to dissection? Or is it a matter of looking at it from a number of "views?" What I'm really after is something to the effect of:

- 1) first find all the embedded flies
- 2) conversions/reversals on items remaining
- 3) etc....

Thanks in advance,

-Vesc

Ri\$k Doctor

Dissecting in steps

« Reply #1 on: January 26, 2009, 06:34:06 PM »

You get quicker over time but if you use the Position Dissector Spreadsheet, it automatically dissects out the reversals/conversions and boxes. Try taking out only long butterflies (they are usually too cheap to be short). Look for potential wings and enter that amount for the body of the next strike to dissect. Just keep going until the contracts start to get too big and then go to the other extreem and work back to the middle. Obviously, this method will not work for all instances but it is a start of a long experience of dissecting options that will become second nature over time. There are hundreds of examples in the forum to learn from.

vesc

Dissecting in steps

« Reply #2 on: January 27, 2009, 11:08:04 AM »

Thanks Charles, great info.

Is there an Excel version of the spreadsheet?

-Vesc

Ri\$k Doctor

Dissecting in steps

« Reply #3 on: January 27, 2009, 08:14:40 PM »

Yes and it is available with the Position Dissection Course

Cyrus

Collar vs Vertical, Excerpts from a Guru's Forum

« on: January 06, 2009, 08:21:36 AM »

Hello RiskDoctor,

I recently had a discussion in another public group with a collar trader who is also an instructor for an Options education company. I wanted to get your feedback on this style of collar management, and also on the 'collar vs vertical' discussion I had with him and others from that other group.

The general ideas behind his collar trades, which he calls Dynamic Hedge Collar (DHC for short) is this:

- He selects stock that he is long-term bullish on, which he does not mind accumulating shares in, over time.
- At minimum, he will own enough long put (front or second month usually) under it at about 1 standard deviation away (to start) with, to completely hedge the downside. This is if he is very bullish (married put / synthetic call);
- He will sell calls against it, same month, when he believes the market might pull back or go sideways for the short-term.
- If stock rallies higher, his goal is to roll the long put higher for 1.30 or less (\$5 spread wide), to lock-in his gains.
- If the stock moves lower, he will wait until he believes the stock is done going down for the short-term, and will roll the put and short calls lower
- In some cases, he will use the proceeds from the long puts and short calls at that point, to buy more shares.
- There are some other variations, were he might sell additional call spreads or buy extra puts, and so on. Depending on his short-term outlook.

The idea is that as the stock oscillates and goes higher over time, or at least goes sideways, he will end-up owning more and more shares over time, while remaining hedged with puts at all times.

There are some other details that I've left out, but this is the general description of the strategy. It's very similar to the collar strategy described in the book by RandomWalkTrading.

So first I would like to get your (and others) feedback on this. Secondly, I would like to post a summarized version of some of the discussion I had with him and others that follow his approach from that other group, to get your feedback on that as well. That discussion revolved around vertical vs collar, where he was initially arguing that what he does with his collars can not be done with options only, which I disagreed with. It is all posted below.

Thanks in advance.
Cyrus

The below discussion took place elsewhere between myself and the collar guru/instructor. I would appreciate any comment you might have on it.

I've tried to keep the excerpts to the point and I've removing their sarcastic remarks (it appears that they do not like to be challenged).

There was also a good discussion with an ex-market maker there, with regards to cost-of-carry in longer-term collars and the early exercise, but since that did not relate to the original topic/question, I've left that out - but I can paste that in later, if there is an interest in that.

First post by a student with a question:

QUOTE

I learned Collar in a 2-day class and some advanced ICT classes later on. Management of this strategy is truly a master piece. However, there is still one thing that I am trying to resolve: Why the core position structured using a Married Put instead of a simple Call option (the synthetic)? Can the collar management be mapped onto the synthetic?

The collar trader/instructor's response (we can call him the Collar Guru - or CG for now):

QUOTE

In a word: No

This has been discussed countless times over the past four years in these forums. The DHC, by design, is a stock accumulation strategy, not just another bullish trade as the synthetics superficially suggest.

[At this point a # of other arguments came in by other participants, agreeing with CG, trying to argue why the collar & verticals are different.]

Then I posted:

QUOTE

As long as you trade the stock in 100 share increments, there will be an equivalent option position for it.

The arguments presented against the synthetic equivalent (which is a simple bull spread done with calls or put at same strike/month) are not valid.

The arguments that I've seen are:

1. Collar has 3 legs a bull spread has 2.
2. With DHC your goal it to accumulate stock, with options you can't do that.

....

[Then I showed how these arguments and others are not valid by providing some detailed examples]

Collar Guru (CG) replies:

QUOTE

A difference in profitability is not the focal issue here. It is the difference in the possible adjustments while managing the position that make the difference. Once one trades an account with more than one comma in the balance, the difference will be clear.

Cyrus Replies:

QUOTE

...What possible adjustment can you make with the collar than can not be made with the vertical? I've given some clear examples, maybe you can provide the same...

[Finally after some back & forth, CG provides examples to demonstrate how his collar is superior to the vertical]CG Replies:

QUOTE

Suppose you alter the ratio of the three basic components of the collar. Such as:

- More than 1 put per hundred shares. (e.g. 135 puts/ 10k shares)
- Buying or selling shares in other than 100 share blocks.
- Selling additional call spreads (over the requisite number of short call) to offset 'expensive' puts.

...there are others.

Cyrus Replies:

QUOTE

>>"Suppose you alter the ratio of the three basic components of the collar"

This will not matter (as we will see below) as long as stock remains in 100 share increments.

Let's take these examples one at a time:

>>"- More than 1 put per hundred shares. (e.g. 135 puts/ 10k shares)"

The equal synthetic version would be 100 calls + 35 puts at the same strike.

As an example, trader A has 10K shares of stock at \$50/share + 135 FEB 45 puts.

Trader B's equal position would be 100 FEB 45 calls + 35 FEB puts.

>>"- Buying or selling shares in other than 100 share blocks"

As I stated in the first sentence of my first post in this thread, the synthetic equality can be achieved when you trade 100 shares a time. I'll repeat what I said there for reference here:

"As long as you trade the stock in 100 share increments, there will be an equivalent option position for it."

>>"- Selling additional call spreads (over the requisite number of short call) to offset 'expensive' puts."

Using my example from above:

Trader A has 10K shares of stock at \$50/share + 100 FEB 45 puts - 100 FEB 55 calls. Then he sells 40 FEB 55/60 call verticals.

So his net position would be;

+10000 shares stock
+100 FEB 45 puts
-140 FEB 55 calls
+40 FEB 60 calls.

Trader B's position will be;

100 FEB 45 calls
-140 FEB 55 calls
+40 FEB 60 calls.

Again, they're both in the same position.

Any contract size variations in any of the legs, for as many legs that can be, as long as stock is traded at 100 share increments, will have an equal position. If you believe there are variation that can not have an equal position, list them.

[CG finally sort-of, kind-of agrees]

Cyrus' final main response:
QUOTE

...
As for your question, there is nothing wrong with trading other-than 100 share increments. In fact if a trader wants to stay MOSTLY with options *and* still have the flexibility of trading other-than 100 shares, they can do that as well.

For example:

Trader A:

+340 shares of stock xyz, with
+4 FEB 45 puts;

is equal to:

Trader B: +3 FEB 45 calls
+1 FEB 45 put
+40 shares of stock.

So instead of having to own 340 shares, Trader B only needs to own 40 shares --replacing the 300 shares +3 puts with 3 calls.

>>"Is it that the synthetic can be "mapped" to the collar? That was already agreed to. I disagreed at the beginning of this thread because most are interested in this strategy to protect and accumulate stocks in an existing portfolio."

I see. Well, I'm glad you're agreeing now, since your first response to me stated this: " It is the difference in the possible adjustments while managing the position that make the difference." And we've shown that that is not the case. So a trader can choose to use options only, and apply DHC techniques, and accumulate cash over time (instead of accumulating stocks), if they wanted to. There will be minor differences (ex. slippage, commission) but they're just that: differences, and not advantages of one vs. the other, since the differences can sometimes work for & other times work against each version.

End of discussion so far.

So, Question for RiskDoctor:

Can you please take a look to see if any important issues were left out, and provide any additional comments you might have?

Thanks
Cyrus

Ri\$k Doctor

Collar vs Vertical, Excerpts from a Guru's Forum

« **Reply #1 on:** January 07, 2009, 08:30:07 AM »

This is excellent and I agree with Cyrus 100%.

QUOTE
So his net position would be;

+100oo shares stock
+100 FEB 45 puts
-140 FEB 55 calls
+40 FEB 60 calls.

Trader B's position will be;
100 FEB 45 calls
-140 FEB 55 calls
+40 FEB 60 calls.

Again, they're both in the same position.
Trader A:

	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	T	V	X
13				PivotK	45											PivotK	45	
14			Month	FEB	100			Inc Adj	Y							FEB		
15			Raw Position															
16	nC	rC	Adj	Cur	K	Cur	Adj	rP	nP	K		Bfly1	Bfly2	Bfly3	K	C	K	P
36					35					35					35		35	
37					40					40					40		40	
38	100				45	100		100		45					45	80	45	
39					50					50		20	20		50		50	
40	(140)	(140)		(140)	55					55		40	40		55	(80)	55	
41	40	40		40	60					60					60		60	
42					65					65					65		65	
59					Net					Net		60	60		Net		Net	

Trader B:

	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	T	V	X
13				PivotK	45											PivotK	45	
14			Month	FEB				Inc Adj	Y							FEB		
15			Raw Position															
16	nC	rC	Adj	Cur	K	Cur	Adj	rP	nP	K		Bfly1	Bfly2	Bfly3	K	C	K	P
36					35					35					35		35	
37					40					40					40		40	
38	100	100		100	45					45					45	80	45	
39					50					50		20	20		50		50	
40	(140)	(140)		(140)	55					55		40	40		55	(80)	55	
41	40	40		40	60					60					60		60	
42					65					65					65		65	
59					Net					Net		60	60		Net		Net	

QUOTE

Trader A:

+340 shares of stock xyz, with
+4 FEB 45 puts;

is equal to:

Trader B: +3 FEB 45 calls

+1 FEB 45 put
+40 shares of stock.

Trader A:

	C	D	E	F	G	H	I	J	K
13				PivotK	45				
14			Month	FEB	3.40			Inc Adj	Y
15			Raw Position						
16	nC	rC	Adj	Cur	K	Cur	Adj	rP	nP
36					35				
37					40				
38	3.40				45	4		4	0.60
39					50				
59	3.40	3.40		3.40	Net	0.60		0.60	0.60

Trader B:

	C	D	E	F	G	H	I	J	K
13				PivotK	45				
14			Month	FEB	0.40			Inc Adj	Y
15			Raw Position						
16	nC	rC	Adj	Cur	K	Cur	Adj	rP	nP
36					35				
37					40				
38	3.40	3		3	45	1		1	0.60
39					50				
59	3.40	3.40		3.40	Net	0.60		0.60	0.60

I think that these Gurus do pretty well in a bull market. Perhaps better than with synthetics but only for one reason (explained a little further down).

I am curious as to what they do for bear trends?

Does CG employ some sort of reverse collar when bearish on a stock? (Please paste what you have perhaps discussed in this discussion).

Opinion:

Why will those CGs may out-perform the bull spreaders (BS) in an up-trending market?

It is not for any extra brilliance. It is actually because of a self deception. You said that the CG

QUOTE

- In some cases, he will use the proceeds from the long puts and short calls at that point, to buy more shares.

Therefore, these **'profits'** (part of an overall losing position) are making him get longer than BS would get.

This is opposed to BS's methods, who usually never adds to losers unless the complete size was not initially put on. BTW: I assume that CG buys more puts with the stock. Anyway, while the 'up-trending' market experiences temporary dips, CG is grabbing more long deltas. Unless BS is using technical analysis to also buy more deltas on the dips, his performance will lag CG's returns.

CG is clearly adding to losers and if he does not have his full size on to begin with then it's OK. **Questions:**

Does CG teach/profess about what makes him get out when he is wrong?

Does CG have criteria for taking losses and to stop adding?

Does CG allocate a certain amount to each play as part of an overall potfolio of interrealted and deversified strategies?

In a down-market, BS loses less and, BTW, if diversified with other bearish plays, actually makes some money to offset the losers.

This brings us back to the question above:

What does CG do about getting short deltas anywhere? Or did he take 2008 off to go skiing?

Cyrus

Collar vs Vertical, Excerpts from a Guru's Forum

« Reply #2 on: January 07, 2009, 03:15:34 PM »

Dear RiskDoctor,

Thank you for your response.

QUOTE

I am curious as to what they do for bear trends?

He says he traders what he calls a 'reverse collar' in bear markets. He shorts stock + long OTM call and short OTM put. However, I'm not 100% sure whether he applied exact same rules as the bull collar or not.

I will try to find out more about that reverse-collar strategy.

QUOTE

This is opposed to BS's methods, who usually never adds to losers unless the complete size was not initially put on.

What I mentioned on their forum was that this is a 'psychological' advantage IF one manages the collar in this fashion, and it ends up working the way expected. BUT if BS mirrors the moves of CG, then he should get results that are very very similar. Except, as you said, it's difficult to do any bull vertical and add to it, if the one you just did lost money.

QUOTE

BTW: I assume that CG buys more puts with the stock.

Yes, he will always hedge all the stocks with puts. No un-hedged shares.

QUOTE

CG is clearly adding to losers and if he does not have his full size on to begin with then it's OK

This is a real good point. If the stock starts oscillating lower, instead of higher, his losses will get bigger and bigger, since he is adding more shares. This will work only if the stock oscillates sideways or higher.

In the discussion in their forum all I was attempting to demonstrate was that one can achieve the same results with option and does not need to own stock, if one chooses to. Since that was the first question asked by someone. And getting them to admit just to that, was like pulling teeth. Challenging the strategy itself, would be another topic - which is probably a more worthy thing to look into. By 'challenge' I don't mean to prove it wrong - but just to point out where the risks are. The obvious one being the 'adding to the loser' issue you mentioned, where if you're wrong about the stock, and if it takes you 2-3 month to figure that out (see below for detail on the 2-3 month comment), you can end up losing a lot more than you originally planned.

QUOTE
Does CG teach/profess about what makes him get out when he is wrong?

Well, he is really subjective there. He says he will stay with the stock as long as: 1. it is volatile in that it moves at least 1 strike a month and 2. his longer-term outlook remains bullish. How he determines #2, is not clear.

QUOTE
Does CG have criteria for taking losses and to stop adding?

I think if the stock fails to live up to the above 2 criteria for 2 to 3 months, he will start exiting/scaling out of the stock.

QUOTE
Does CG allocate a certain amount to each play as part of an overall portfolio of interrelated and diversified strategies?

Yes, I believe he trades a portfolio of stocks in this fashion. I'm not sure what his allocation rules are. Also my attention has been on this strategy, so I don't know if he trades any other strategies and if so, to what extend. But I imagine this is his main strategy.

QUOTE
What does CG do about getting short deltas anywhere?

I don't know what else he trades, but he mainly talks about the collar, and lately, the reverse-collar. I think his main focus is bull collars for stocks he is long-term bullish on.

Thanks a bunch.
Cyrus

Ri\$k Doctor

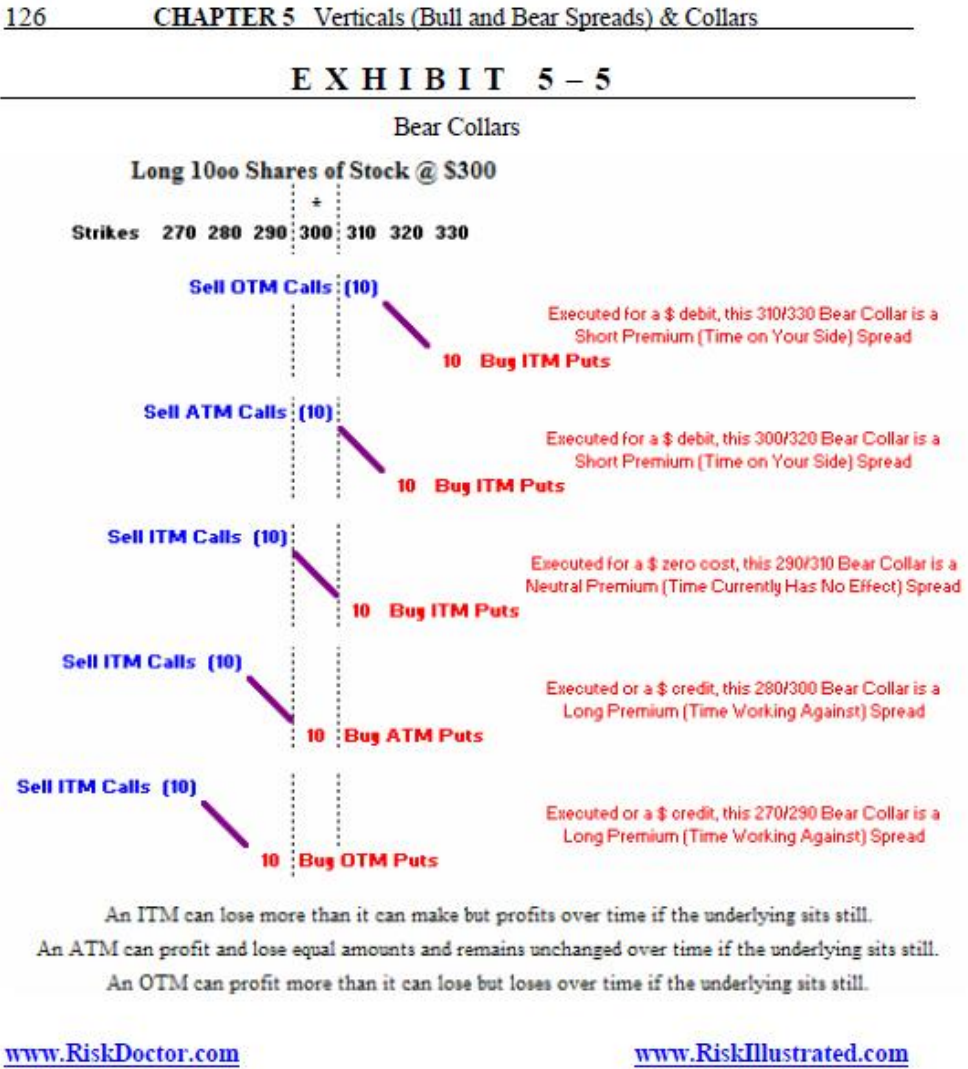
Collar vs Vertical, Excerpts from a Guru's Forum

« Reply #3 on: January 07, 2009, 04:20:16 PM »

QUOTE
He says he traders what he calls a 'reverse collar' in bear markets. He shorts stock + long OTM call and short OTM put. However, I'm not 100% sure whether he applied exact same rules as the bull collar or not.

I will try to find out more about that reverse-collar strategy.
Perhaps CG does not know that a Bear Collar can be achieved with long stock.

Bottom half of Exhibit 5-5:



rhammer	<div><div>Collar vs Vertical, Excerpts from a Guru's Forum</div><div>« Reply #4 on: January 07, 2009, 06:45:17 PM »</div><div>I'm also very familiar with CG's strategy and teachings (and have met him) and have been following the discussion by Cyrus on the other forum. This would be great to expound on (in that hour you suggested). I would be very interested in more discussion of the bear collars above. My question at the outset is which choice is optimal? I'm sure that depends on the outlook and environment. I need to spend some more time on it as this is pretty new to me. Great post! Rich</div></div>
Ali	<div><div>Collar vs Vertical, Excerpts from a Guru's Forum</div><div>« Reply #5 on: January 07, 2009, 08:14:58 PM »</div><div>Hi Rich, Your margin rules might be a big consideration. The main difference is that one is constructed with short stock, while the other with long stock. If you're trading in an IRA account, you might be limited to trading long stocks only. Also if you don't want to sell your existing stock (ex. tax reasons), then you can build the bear collar with it, to take advantage / hedge against bear markets. The other issue to consider is that with the long-stock bear collar, you'll be trading ITM options, while the short-stock bear collar uses OTM options. The spreads are typically wider for ITM options so slippage might a problem. There is also dividend issues (for the short-stock bear collar) & assignment risk (for the long-stock bear collar) to consider. If I felt the vertical was the right choice, I would personally just use a options-only bear verticals, unless I already had the stock and could not or did not want to sell for some reason. - Ali</div></div>
Ri\$k Doctor	<div><div>Collar vs Vertical, Excerpts from a Guru's Forum</div><div>« Reply #6 on: January 08, 2009, 08:15:53 AM »</div><div>Ditto. Great response Ali! Thank you.</div></div>
OptionMechanic	<div><div>Collar vs Vertical, Excerpts from a Guru's Forum</div><div>« Reply #7 on: January 11, 2009, 09:57:13 PM »</div><div>...and an insightful contribution by Ali: DH Collar</div></div>
Ali	<div><div>Collar vs Vertical, Excerpts from a Guru's Forum</div><div>« Reply #8 on: January 13, 2009, 08:11:40 AM »</div><div>Thanks Henry for finding that older post. There is critical aspect to consider when adding to winning positions. Typically it only makes sense to add to a trend-following approach such as this, early on, and a limited # of times. If one studies any of the trend-following masters, you'll see this. It's not a good idea to continually add to a position indefinitely, as it is implied by this DHC approach. Even though the position is hedged, if you keep adding ,the delta will get bigger and bigger and bigger. The reason one can make a killing is because you're dumping all your gains back into the position again, and if it keeps going, then you're doing very well. But that also means you're also continuously increasing your dollar risk. All trends eventually end, so the question is when do you start scaling out. A large sudden drop in the stock, later in the trend, once you've got into a very large position, could cause a lot of damage to the account. - Ali</div></div>
Ri\$k Doctor	<div><div>Collar vs Vertical, Excerpts from a Guru's Forum</div><div>« Reply #9 on: January 13, 2009, 09:52:09 AM »</div><div>I agree. 3 ways to address: 1.) Roll up to maintain a more equal size delta, rather than an increasing delta so when the correction happens, you will sustain an affordable draw-down. 2.) Use Trailing-Stop-Consciousness, keeping in mind that if deltas are growing that they will be closer stops to avoid a bigger pain. 3.) A combination of 1 and 2.</div></div>
rhammer	<div><div>Collar vs Vertical, Excerpts from a Guru's Forum</div><div>« Reply #10 on: January 15, 2009, 01:20:08 PM »</div><div>Rolling up puts at predefined levels is part of the strategy employed. Thus the position is continuously hedged, with limited downside in the short term. Of course if stock is added from selling the puts for profit, more puts are added. So while the stock position may increase in size so do the puts. Of course at some point if the stock trends down for length of time, it does turn into a losing position. The important question as Ali pointed out, is when to start getting out. Rich</div></div>

Ali

Collar vs Vertical, Excerpts from a Guru's Forum

« Reply #11 on: January 15, 2009, 02:08:22 PM »

Hi Rich,

Yes, he stays hedged by buying more puts. But the position gets bigger and bigger over time.

If you convert it to verticals, it's like starting with a 10 lot bull call vertical, and as stock goes higher over the course of say, 2 years, now you're buying 300 lot verticals on it.

A drop of 5% with stock at 100, is a \$5 drop. This will hurt a lot more with 300 spreads on, vs. a 5% drop at 50 (which is a \$2.5 drop) with a 10-lot spread.

If you watch the equity curve of the position, assuming he is winning, it will get more and more volatile as he adds to his position, with larger and larger swings in the account P/L over time.

So if it took you say 6 months to make x amount of money with a 10-lot, a one day move with a 300 lot, can wipe that out. Of course, the positive side is that up-swings in the account will get bigger and bigger.

The question is, are you OK with such a risk. I don't think these issues are addressed by the collar guru. Are they?

- Ali

rhammer

Collar vs Vertical, Excerpts from a Guru's Forum

« Reply #12 on: January 15, 2009, 02:36:25 PM »

Hi Ali,

Your assessment is correct. The swings do get bigger as the the position accumulates. I have briefly seen one of his equity curves of a postion held for several years. The position started out fairly flat for over a year, and then became parabolic. Maybe it was a good stock pick. At least the positions I have seen discussed, have been held for quite some time though. Essentially it becomes a large stock position (with hedging) so yes, more shares results in larger dollar moves. Maybe its more an "investment" rather than a trade. 😊 One difference is that stock doesn't experience theta decay and expire.

And I believe your right that that the volatility of the position as it gets larger is not addressed much. At least I don't recall it and I have been following that board for quite some time. I have heard him admit in a seminar, that can happen in response to a question but it was superficially treated. I can support that from personal experience, as I have done these trades. I also have doubled my position in a short time with this. However, I agree with Cyrus's post, which I originally followed, that the same can be accomplished with options only. I'm looking forward to the session in RDCC that may deal with this!

Rich

Ri\$k Doctor

Collar vs Vertical, Excerpts from a Guru's Forum

« Reply #13 on: January 18, 2009, 11:17:47 AM »

Ali said:

QUOTE

Yes, he stays hedged by buying more puts. But the position gets bigger and bigger over time.

and Rich asked:

QUOTE

Essentially it becomes a large stock position (with hedging) so yes, more shares results in larger dollar moves. Maybe it??s more an "investment" rather than a trade. 😊

The goal of most options traders is to grow their size commensurate with profits, but in a diversified manner. Therefore, if the equity is increasing due mostly to one play, then some of those chips need to come off the table and be reallocated to other plays. Keeping in mind an [Allocation Process*](#) is first and foremost and if all the proverbial eggs wind up in too few baskets, it can and most often spells doom.

*This Allocation Process is what I like but others may be more suitable for one's particular needs.

aguison

Mystery Options Strategy

« on: January 12, 2009, 11:50:39 AM »

Charles,

I came across this website: www.consistentoptionsincome.com and there the vendor touts about an option strategy he uses that makes money consistently.

Any ideas what this strategy could be?

Let me include some excerpts from the site:

If you have followed the market at all for the last year, you know that it has been very volatile and unforgiving for traditional options income trades. However, what I offer is not traditional. My options trading strategy extracts passive income from the market when it goes nowhere but it can also take advantage of significant market moves in either direction. You need to be able to profit using a single strategy whether the market goes up, down, or nowhere. In my options trading course, I will demonstrate an options trading strategy that makes money from Time Decay about 70% of the time and makes money from significant Directional Moves about 30% of the time. Most importantly, I will demonstrate an options trading strategy that MAKES MONEY 100% OF THE TIME. I will demonstrate this to you day by day in two years of trading using real data.

What I DO NOT teach

- * I DO NOT simply teach "high probability" Credit Spreads or Iron Condors!

What I DO teach

- * Why probability can be misleading.
- * The problem with traditional options trades.
- * How to start with a complex options position and adjust it methodically to trap the market into coughing up some profits.
- * How to adjust your trade at points that are precise, known in advance and do not require any interpretation.
- * How to check the position at least once per day at the time of your choosing.
- * How to place Conditional Market orders to make adjustments automatically during the day if the market movement dictates.
- * How to easily follow the system rules which are few in number.
- * How to trade a single Stock Index options position to make tracking easy and reduce your exposure to single stock risk.
- * How to reduce your risk significantly by only being in the market about 40% of the time.
- * How the strategy performs by trading day by day for the past two years with actual data.
- * Help you gain experience by applying the rules in simulated trading using actual data from the past.
- * Help you to become a grizzled trading veteran by the time you are done with the course.
- * Help you learn not only exactly what to do but also understand exactly why you are doing it.
- * Show you that you will not start off just hoping that you will make money. You will have actual experience that will give you confidence that you know what you are doing.

Ri\$k Doctor

Mystery Options Strategy

« Reply #1 on: January 12, 2009, 06:43:20 PM »

QUOTE

- * I DO NOT simply teach "high probability" Credit Spreads or Iron Condors!

If I had to guess, I would say a positive theta, Irons of some sort, with extra kickers. Like a "W". You know, a short straddle or strangle and long further away strangles in a greater quantity. Those can lose, but maybe he just back tested a bunch that would have won. Who knows?

You just gotta love those Mystery Gurus.

Ali	<div><div>Mystery Options Strategy</div><div>« Reply #2 on: January 13, 2009, 09:30:37 AM »</div><div>Hi AI,</div><div>It's nice to hear from you.</div><div>I would like to get Charles' comments on this as well.</div><div>Meanwhile, this sounds like some sort of a short-premium (ie long theta) ATM position (calendar, fly, condor, etc.). With extra long calls & puts on either end - to capture any big moves. The key would be to see how one manages such positions under each market scenario.</div><div>It's funny you mention this, because I just posted something in the RDCC forum (the private coaching program forum that Charles has going) with regards to the double-slingshot, and variations of it. You can take a look at the Slingshot chapter in the OTTHR book for some info on that.</div><div>What Juan Sarmiento calls PCCRC, is also based on the same concept. He buys ATM calendars and then buys extra puts and calls in the back month. Juan is a good guy, but be careful, since he feels his strategy is the holly grail. I've had some discussions with him on this forum that you can look at here: PCCRC</div><div>There is risk in every strategy, it's just a matter of understanding where those risks are, and how you will manage it. As long as you do that, you should be fine. I personally have been trading variations of such strategies during the past couple of years with good results.</div><div>- Ali.</div></div>
Ri\$k Doctor	<div><div>Mystery Options Strategy</div><div>« Reply #3 on: January 13, 2009, 09:57:04 AM »</div><div>I confirm 100%, Ali.</div><div>QUOTE</div><div>You can take a look at the Slingshot chapter in the OTTHR book for some info on that.</div><div>Also:</div><div>Slingshot: The Movie, starring Bradjolina</div></div>
rhammer	<div><div>Mystery Options Strategy</div><div>« Reply #4 on: January 15, 2009, 01:36:40 PM »</div><div>Ali,</div><div>I've also been taught a similar strategy using ratio backspreads over time. Has a fancy name when you do it in both directions and becomes similar to what Charles suggested.</div><div>Rich</div></div>

Ri\$k Doctor

"I Want My Bailout Money"

« on: January 12, 2009, 12:46:06 PM »

"I Want My Bailout Money" -- Hip Hop satire from Michael Adams (a/k/a the Health Ranger), editor of NaturalNews.com.

Some dirty language involved, so perhaps it's Not Safe For Work if you aren't wearing headphones.

I Want My Bailout Money
SONG LYRICS

I want my bailout money
Keep the bills coming
Sweet green cash just drippin like honey
I'm a new kind of thug with a Washington buzz 'cause
Dealing debt pays better than dealing drugs

What do you think will happen when they double the money supply?
The falling dollar makes it harder for you to survive
They take those billions and trillions and give it to their own kind
Hope you don't mind bein robbed blind

How do you think we got runaway credit?
Ain't nothin goin down unless the crooks in Washington let it
Now they regret it but they still don't get it
Cause the economy is crashin so bad it needs a paramedic

I want my bailout money
Sweet green cash just dripping with honey
Gotta keep this economy running
I need another hit of my bailout money

Look at the stash, it's like a mad dash for the cash
They got the taxpayer takin it in the ass
the CEOs they are havin a blast
While the workin poor trying to make the paycheck last

The bailout money is created with new debt
While they rollin in their limos and private jets
All the workers on the street drippin sweat
While collar hustlers are takin everything they can get

They put the nation on a hyperinflation track
No Presidential administration can take it back
And now the taxpayers pickin up the slack
Like they put a high dollar Big Brother monkey on your back

I want my bailout money
Sweet green cash just dripping with honey
Gotta keep this economy running
I need another hit of my bailout money

The prisons are filled with brothers caught on a fifty-dollar jack
But when Whitey takin trillions, the cops they turn their back
The incompetent bankers, they get their jobs back
Cause those crankers smoking money like it was crack

They take your car, your home, everything that you own
And when you're jobless and broke, you still gotta pay the loan
If you're thinkin of stealin some food, please don't
Just go to Washington and you can steal everything you want

How we gonna solve this, dissolve the big scam
We resolve we won't let 'em steal from a fellow man
Gotta raise our hands and ask "What is this?"
Then we put the Federal Reserve out of business!

You take a look at a dollar bill, you see that eye above the pyramid lookin back at you
That eye is laughin at you suckers!

I want my bailout money
Keep the con running
Sweet green cash just dripping with honey
Gotta keep this economy running
I need another hit of my bailout money

Aren't you tired of payin for that? Tired of breakin your back for that?
Bein oppressed and suppressed while you keep payin your tax for that?
We gotta get out of this financial trap
And it's never gonna stop until you take your country back

The politicians are useless, don't you know that they used us
And the bankers refused us while the media schooled us
The authorities knew this was happening to us
Cause they make more money every time that they screw us

You didn't think they're printing all that funny money just for you, did ya?

Drownin' in debt but the Fed isn't done yet
What are we gonna get?
Gonna print funny money
Budget's in the red, economy nearly dead
Politician's said that we
Gonna print funny money
Hangin' by a thread, the people are bein' bled
But get it through your head that we
Gonna print funny money
The bankers gotta stay ahead, gotta make more bread
That's when they said, "Print more money!"

Chrislambert
IBKR - Adjust into Bull spread

« on: November 27, 2008, 07:08:42 PM »

Charles - I'm wondering if you can help me think through a simple position I have on. As you are aware I'm working through RD1&RD2 so aren't as advanced as your other students. So I'm hoping that posting simple active trades I'm involved in will help me progress my understanding as I work through the book. This questions ties into RD1 lesson 4 - Manage the beast and the example discussed page 56 of the book.

I have the following trade that I put on last week:

IBKR	STK			0 IBKR			STOCK	.00	94.29%	.00
SINGLE	BUY	+15	IBKR	DEC 08	15	CALL	1.35	84.72%	1233.97	X
SINGLE	BUY	+10	IBKR	DEC 08	17.5	CALL	1.10	75.45%	585.88	X

The position is currently as follows:

PRICE SLICES

ADD SLICE

SET SLICES

SET SLICES TO CHARTS

REORDER

RESET SLICES

Stk Price	Mode	Delta	Gamma	Theta	Vega	P/L Open	P/L Day	BP Effect
17.90	Live	1819.85	212.87	-60.40	35.77	(\$286.23)	(\$286.23)	(\$6,850.00)

POSITIONS AND SIMULATED TRADES

click to set params

DELETE SIMULATED TRADES

RESET PARAMETERS

ALL

Show All

Single Symbol

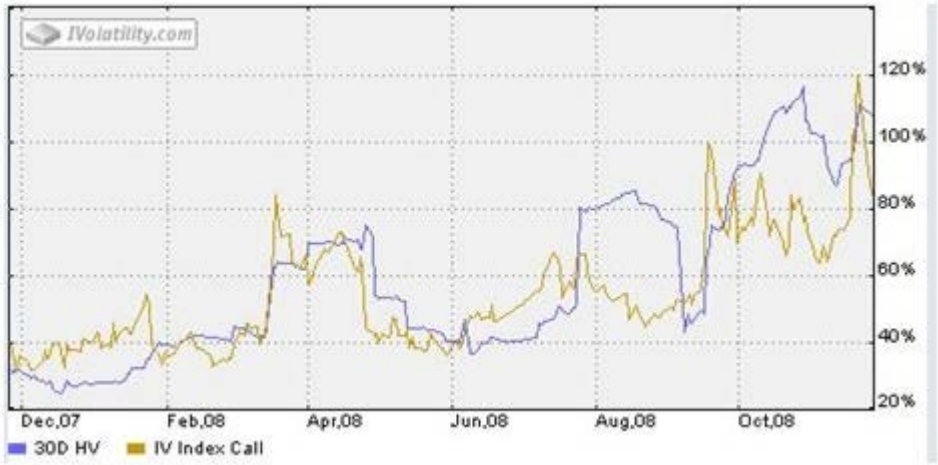
ModelBlack-Scholes

Interest1.00%

Date26/11/08

Spread	Side	Qty	Symbol	Exp	Strike	Type	Price	Vol	Delta
IBKR									
<div><div><div>STK</div></div></div>			0 IBKR			STOCK	.00	94.30%	.00
<div><div><div>SINGLE</div></div></div>	BUY	+15	IBKR	DEC 08	15	CALL	3.50	84.72%	1233.97
<div><div><div>SINGLE</div></div></div>	BUY	+10	IBKR	DEC 08	17.5	CALL	1.60	75.45%	585.88

Here is the Implied and historical volatility and current chart.



I was bullish when I entered the position originally buying 15 x Dec \$15 calls and then increasing the position a day later buying 10 x Dec \$17.50 calls. The implied volatility was very high when I entered the position. So I was concerned about entering a straight call position due to the risk of IV collapse. My expectation was that I would Leg into a Bull spread to to capture some call premium after an initial move. An initial move has now occurred, and I am still bullish but expect the stock to be less than \$20 by expiration (~13% move required) and so am considering adjusting my position to capture some of the premium by selling the OTM \$20 Dec Calls by completing the originally conceived trade.

Here is the current options chain:

DEC 08 (22) 100											97.47%
	N/A	1.00	7.60 I	8.20 C	DEC 08	10	.05 B	.20 I	.55 X	- .04	
	5.00 I	.94	5.40 I	5.70 I	DEC 08	12.5	.15 I	.35 I	.41 I	- .09	
	3.40 I	.83	3.10 I	3.50 X	DEC 08	15	.45 I	.70 I	.55 I	- .20	
	1.55 I	.59	1.50 I	1.60 X	DEC 08	17.5	1.20 I	1.40 I	1.25 I	- .41	
	.50 C	.29	.45 C	.55 X	DEC 08	20	2.55 C	2.95 I	2.75 C	- .68	
	.10 I	.10	.10 N	.15 I	DEC 08	22.5	4.60 N	5.10 C	5.00 C	- .83	
	.15 X	.04	0 B	.10 I	DEC 08	25	6.90 C	7.40 N	8.12 N	- .88	

I have these questions:

- (1) When I originally entered the position I envisioned a call spread. Upon reflection should I have considered a bull put spread due to my expectation of IV reducing as the stock increased? Have delta and vega working for me - or is there no free vega money?
- (2) I am still bullish and am considering selling 25 x Dec \$20 call options to complete the bull spread. I'm wondering how I should think through the optimal time to sell the calls considering delta gain vs Vega decay.
- (3) The Jan \$20 Call options are trading with a higher IV than the Dec \$20 calls. Perhaps I could sell 25 x Jan \$20 call options with the expectation that IV will deflate and capture more premium via this trade. At Dec expiration I would buy back the Jan \$20 calls or adjust into a new position. What should I consider with this alternative adjustment?

JAN 09 (49) 100											90.40%
	N/A	.95	7.80 I	8.40 C	JAN 09	10	.25 I	.35 I	.45 B	-.07	
	N/A	.88	5.60 I	6.20 C	JAN 09	12.5	.50 I	.70 I	.85 X	-.14	
	N/A	.75	3.80 I	4.20 X	JAN 09	15	1.05 C	1.30 I	1.29 I	-.25	
	1.60 X	.59	2.25 I	2.50 X	JAN 09	17.5	1.95 I	2.20 I	2.95 C	-.41	
	1.20 I	.40	1.20 I	1.30 X	JAN 09	20	3.30 I	3.70 I	3.94 I	-.58	

Thank you.
Chris

Ri\$k Doctor

IBKR - Adjust into Bull spread

« Reply #1 on: November 28, 2008, 12:21:24 PM »

I don't think you want to consider selling the JAN because the margin requirement will treat it as a naked call because they are further dated. Given your opinion, try to ignore, for the moment, that you have your existing positions. What would you initiate given your opinion and the current pricing? It would seem that a 17.5/20/22.5 butterfly would be more in order. The butterfly spread could be had for 70ish and take advantage of the hi IV.

	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	T	V	X
13				PivotK	1500											PivotK	1500	
14			Month	Dec				Inc Adj	Y							Dec		
15	Raw Position								Butterfly Dissector							Work Sheet		
16	nC	rC	Adj	Cur	K	Cur	Adj	rP	nP	K	Bfly1	Bfly2	Bfly3	K	C	K	P	
35					1000					1000				1000		1000		
36					1250					1250				1250		1250		
37	15	15		15	1500					1500				1500	15	1500		
38	10	10		10	1750					1750				1750		1750		
39					2000					2000	10	10		2000	20	2000		
40					2250					2250				2250	(10)	2250		
59	25	25		25	Net					Net	10	10		Net	25	Net		

You would have to sell do the opposite trae that is in column T:
Sell 15 DEC 15s, Sell 20 DEC 20s and buy 10 22.5s.

Chrislambert

IBKR - Adjust into Bull spread

« Reply #2 on: November 28, 2008, 01:48:33 PM »

Thanks Charles. I need to do some more reading to get up to speed on a butterfly. That will be this weekend's project in RD1/RD2 and is in lesson #5 which I'm working through. I have never traded a butterfly before as its a more than a simple 2 strike strategy so you have stretched my thinking already.
Chris