		Equity Pairs	Superhedger			November 11, 2008, 09:29:59 PM by Ri$k Doctor
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		MNX/SPY Straddle Swaps	CoachPhil			November 04, 2008, 07:29:16 PM by CoachPhil
		PCCRC	edapples			October 27, 2008, 10:50:44 AM by JuanISar
		Implied Volatility Behavior	kubikconcepts			October 19, 2008, 05:14:08 PM by kubikconcepts
		Trading in this high volatility market	aguison			October 14, 2008, 06:55:46 AM by Ri$k Doctor
		Poke holes in this strategy please	naturalogarithm			October 03, 2008, 01:08:22 PM by Ri$k Doctor
		PRICLESS	OptionMechanic			September 24, 2008, 11:31:40 AM by Ri$k Doctor
		Short Sale Ban	mbbcat			September 24, 2008, 11:26:36 AM by Ri$k Doctor
		slingshot: why credit call verticals + puts?	kubikconcepts			September 24, 2008, 06:48:52 AM by Ri$k Doctor
		What is the reasonable strategy allocation?	emk662			September 17, 2008, 10:11:44 AM by Ri$k Doctor
		Can you please show an example of timetool	kubikconcepts			September 17, 2008, 09:19:38 AM by Ri$k Doctor
		how to choose the best vertical?	emk662			September 09, 2008, 06:05:56 AM by Ri$k Doctor
		A pretty low risk covered write	tarttatin			September 08, 2008, 03:55:55 PM by Ri$k Doctor
		A pretty low risk vertical	tarttatin			September 08, 2008, 09:59:55 AM by Ri$k Doctor
		backtesting option strategies	gelfand			August 29, 2008, 04:33:10 PM by OptionMechanic
		Risk free trade?	leonidt			July 30, 2008, 06:23:41 PM by leonidt
		GOOG example in book	CoachPhil			June 12, 2008, 03:29:27 PM by Ri$k Doctor
		Read the book	SilverLion			June 10, 2008, 10:06:29 AM by Ri$k Doctor
		modeling strategies in excel	Wlblount			May 20, 2008, 05:41:43 AM by namanh

Superhedger

Equity Pairs

« **on:** November 11, 2008, 05:50:08 AM »

I currently trade equity pairs. Shorting one equity and buying the other and then reversing the position as the relationship warrants. I use blackbox software that I developed to excute this high frequency strategy. All trades are intraday.

I am looking to use options to trade these relationships for longer terms (days or weeks) vs intraday. I have thought about buying a straddle in one stock and selling a straddle in another. Not sure exactly how to do this given the vols and which stock I expect to outperform the other.

Any ideas on what I could read to help me in this endeavor.

Thanks, Superhedger

Ri$k Doctor

Equity Pairs

« **Reply #1 on:** November 11, 2008, 09:29:59 PM »

QUOTE
I have thought about buying a straddle in one stock and selling a straddle in another. Not sure exactly how to do this given the vols and which stock I expect to outperform the other. There are some important factors to consider and there have been many such trades discussed in the RD3 Forums.

Real Quick. The long Straddle part may be OK but for the short Straddle part (unlimited loss approach) you may wish to execute a long-the-wings WingSpread, such as a butterfly, condor, iron or otherwise or even a long calendar configuration (limited risk short premium)in a greater quantity (to get the Greeks equal or even greater than the long Straddles Greeks. Keep you in the game longer, especially in these uncertain volatile markets.

There are more details about weighting in the Coaching Clinics.

vash

Earnings
« **on:** October 30, 2008, 03:51:48 AM »

Hi,

Do you play earnings ?
Condor, butterfly, straddle, double calendar, ... ?

Ri$k Doctor

Earnings
« **Reply #1 on:** November 09, 2008, 04:03:57 PM »

That depends on your opinion of the market and Implied Volatility. Certainly, if you think it is going to be a 'Non-Event' where the outcome is that the market will not move, then a butterfly, condor or calendar would be in order. That could even include a double calendar if the strikes were not too far apart. You would be in better shape in IV was rather low to do the calendars but if IV was high, either of the wing spreads.

If you thought there could be a move in either direction, theoretically, a straddle or strangle would be called for if IV was lower than what was priced into the move. Usually it is and only a wild surprise would leave you with a profitable situation.

Bullish or bearish might better be served by a directional vertical if you had a hunch and whether it was ITM, ATM or OTM would depend, again, about your assumption of IV (which again is another speculation altogether).

No easy answer and most successful traders tent to stay away during earnings.

CoachPhil

MNX/SPY Straddle Swaps

« **on:** October 30, 2008, 02:08:02 PM »

Charles and group...

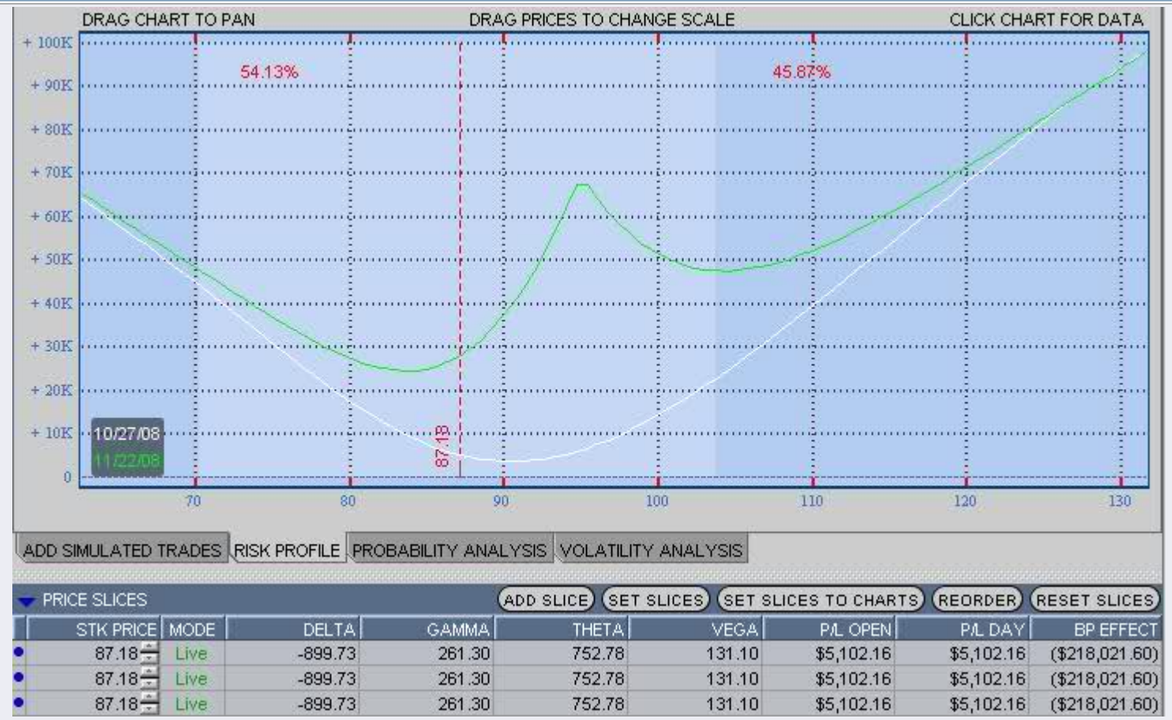
I messed up my previous NDX/SPX combo straddles position with some over adjusting and other mistakes so I tweaked my approach a bit and on OCT 17, 2008 opened the following position:

-70 NOV SPY $95 Straddles @ $13.65

+40 DEC MNX $135 Straddles @ $23.50

Net debit of $1,550.

Did not take a snapshot at the opening of the trade but here is the risk graph on OCT 27th. The position is currently vega neutral for the most part, +theta, and -delta. The buying power shown below is incorrect and also not taking into account PM.



STK PRICE	MODE	DELTA	GAMMA	THETA	VEGA	P/L OPEN	P/L DAY	BP EFFECT
87.18	Live	-899.73	261.30	752.78	131.10	$5,102.16	$5,102.16	($218,021.60)
87.18	Live	-899.73	261.30	752.78	131.10	$5,102.16	$5,102.16	($218,021.60)
87.18	Live	-899.73	261.30	752.78	131.10	$5,102.16	$5,102.16	($218,021.60)

As of 10/27/08

Basically I went long in DEC and short in NOV to better hedge delta risks and also adjusted my ratio a bit. MNX has wider swings than SPY and bigger moves in its vol for the most part so the ratio is attempting to neutralize vega and make the most profit if the position is really range bound but over a wide range. The wings are not really correct because if market moves up or down big SPY and MNX will not move exactly the same and vols will change as well.

So I will update this position regularly so we can follow along and would appreciate any thoughts or comments. My goal is to basically hold until NOV expiration or until it has a nice profit and bail only if the green line starts to really dip below zero and fall apart.

CoachPhil — **MNX/SPY Straddle Swaps**

« **Reply #1 on:** October 30, 2008, 02:14:39 PM »

Here it is as of 10/30/08. As you can see the graph changes as the two indexes move and vols adjust.

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
96.10	Live	-443.42	277.40	823.17	243.12	$8,312.96	$8,312.96	($211,262.55)
96.10	Live	-443.42	277.40	823.17	243.12	$8,312.96	$8,312.96	($211,262.55)
96.10	Live	-443.42	277.40	823.17	243.12	$8,312.96	$8,312.96	($211,262.55)

CoachPhil — **MNX/SPY Straddle Swaps**

« **Reply #2 on:** November 04, 2008, 07:29:16 PM »

Ok, after two weeks milking this position made my first adjustment after the right side of the risk graph started dipping fast on the move higher and fast drop in vols.

1. Original Position:

-70 NOV SPY $95 Straddles @ $13.65

+40 DEC MNX $135 Straddles @ $23.50

Net debit of $1,550.

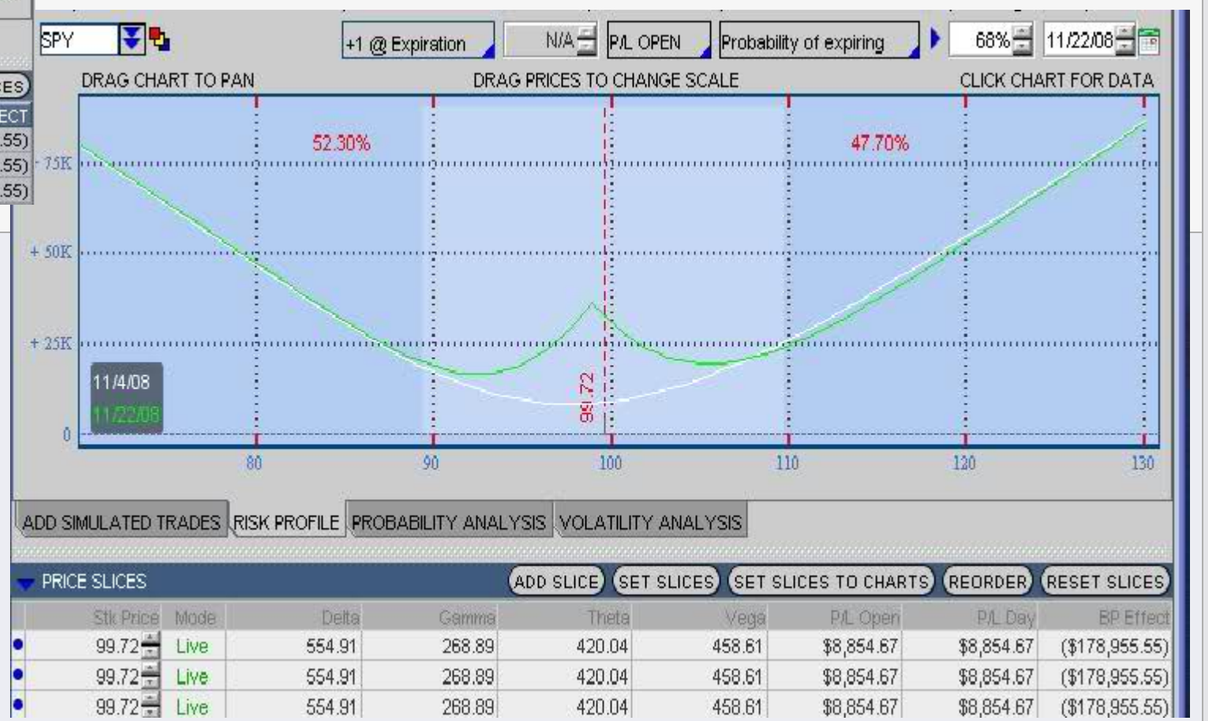
2. Adjustment

A. BTC +70 NOV SPY $95 Straddles at $8.83
Profit of $4.82 or $33,740 taken (technical unrealized still as total position not closed yet)

Lets deduct the original $1,550 debit so net banked unreal. profit here is $32,190.

B. Re-centered my short straddle position in NOV and sold:

-60 NOV SPY $99 Straddles at $7.35.



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
99.72	Live	554.91	268.89	420.04	458.61	$8,854.67	$8,854.67	($178,955.55)
99.72	Live	554.91	268.89	420.04	458.61	$8,854.67	$8,854.67	($178,955.55)
99.72	Live	554.91	268.89	420.04	458.61	$8,854.67	$8,854.67	($178,955.55)

Basically needed to recenter the graph due to risk of large rally continuing into end of the week. Delta positive but +vega so in stress testing the position will hold up on drop in SPY back to 90 along with MNX drop and increase relatively in vols and the positive deltas will help a bit if market keeps running. Decided this adjustment after testing several scenerios of moves up and down and reduced my ratio a bit as well. Major risk is how vols in both VIX and VXN move. Main goal is to play defense and protect banked profits at a minimum.

edapples

PCCRC
« **on:** February 27, 2008, 05:55:36 PM »

I have been reading online about a strategy called PCCRC. Basically it is a ratioed calendar straddle. The trader buys ATM straddles with 3 or 4 months of time and sells an ATM straddle in the current month? The longs should outnumber the shorts. Then month by month you roll the shorts to the next month and roll the longs up or down to keep everything in the ATM strikes.

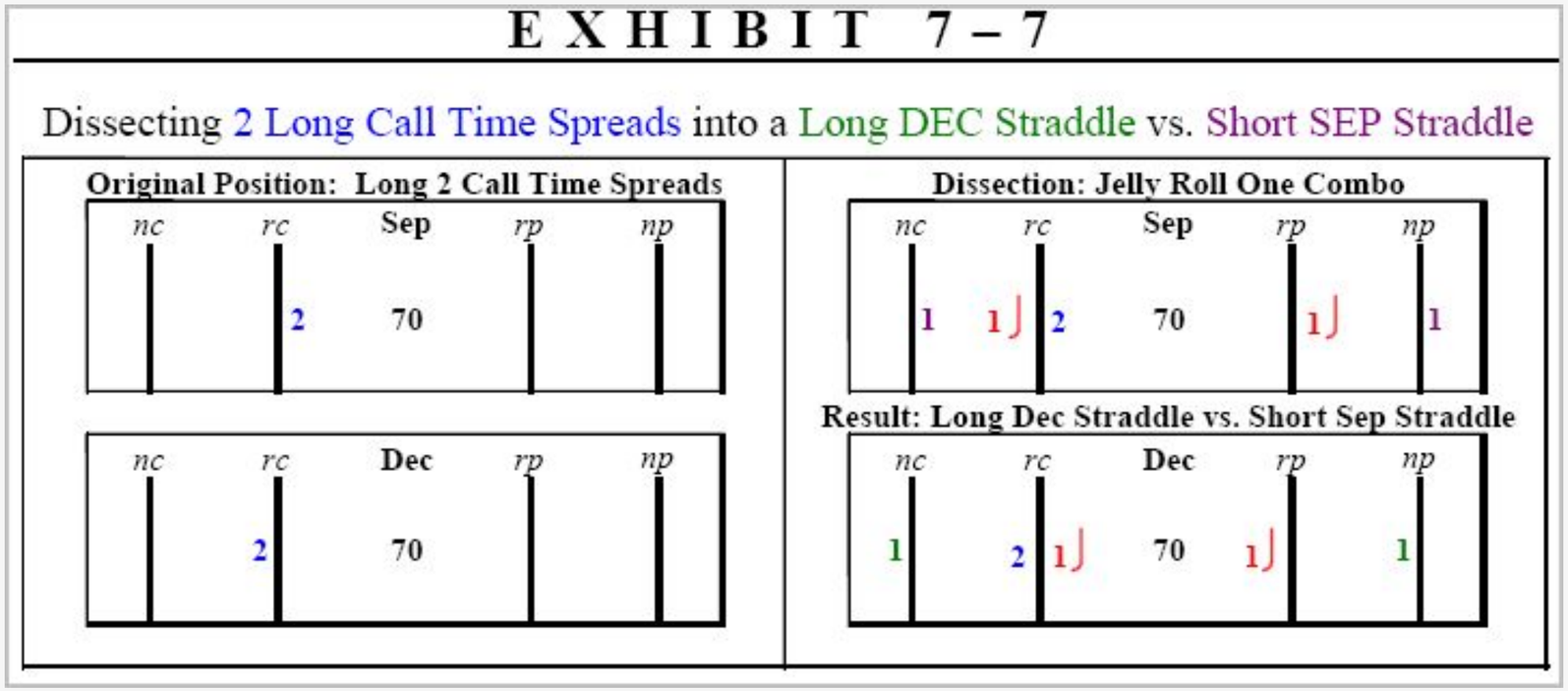
Has anyone tried this strategy? Does it produce an consistent income stream? Are there any hidden risks with this strategy?

Thanks

Ri$k Doctor

PCCRC
« **Reply #1 on:** February 28, 2008, 08:03:03 AM »

Firstly, a call, calendar 2 to 2 or a put calendar 2 to 2 is synthe7ically a straddle vs. a straddle. Both look for stability around the strike due to positive theta (time decay). All three versions have positive Vega so this is a play for a low implied volatility to increase (and ideally back more than the front with regard to Vega).



Secondly, adding additional straddles in the back offsets the stability play, and is there for protection against a move that may even develop into an overall profit.

It is not a bad strategy in a low IV market.

arp

PCCRC
« **Reply #2 on:** April 13, 2008, 12:59:08 PM »

I think the biggest risk in this position is vega. The position can be looked at as a calendar (high vega) + a straddle (even higher vega). So a volatility 'crush' of any sort can badly sink the position. Therefore, there is the absolute requirement of needing to be right about implied volatility, when placing this bet.

I am familiar with the strategy in that I have studied what the trader that promotes it says. The key point that he adheres to is placing it on stocks that he believes will be making a large enough move over the life of the straddle to overcome the loss in the calendars. So picking the right stock (big movers) and the right time (relative low volatility) becomes critical. Also he does lock in profits once the big move starts (or exits) in order to hedge against 'mean reversion'.

An alternative approach that has a lot less vega exposure is if you bought a butterfly instead of calendar. So butterfly + strangle. This is kind of like what the RiskDoctor calls double Slingshot (page 235 of his awesome latest book). You can buy the strangle in the same month as the butterfly (lower vega and lower theta exposure) or buy it in the back months (higher vega and higher theta). In either case, the vega of this position is a lot less than the "PCCRC" with the calendars. Interestingly enough, a double Slingshot can also be looked at as a put ratio backspread + a call ratio backspread. Alex Jacobson of ISE in the book "Master Traders" by Fari Hamzei, refers to this double backspread as a 'better' straddle. It can also be looked at as selling a straddle and buying more strangles. Tony Saliba, a friend of RiskDoctor, who was featured in the "Market Wizards" book also talks about something like this during his interview. Tony refers to it as 'buying an explosion hedge' for his butterflies. There is no further explanation of this in that book but it implies that his main trade was the butterfly and any cheap/extra calls/put at the wings were there to hedge the butterflies in case of a large move.

The perspective that I like to take with this strategy, whether using butterfly or calendar, is that my primary position is the long strangle. I want the stock to make a big move one way or another. But I want to hedge some of theta decay & vega risk with a few ATM butterflies just in case the stock remains sideways for longer than I expect. By the way, an alternative to the butterfly is having a condor in the center (or any other wingspread, actually).

Bottom line: I actually like these positions and I prefer the butterfly/condor vs. the calendar for the vega reasons mentioned above. My preference is also not to place the whole structure in at one time and 'build it' over time - i.e., leg into it, in order to get a better position. You can start with fly, then scale into the straddle as the stock settles down over the course of a couple of days after a big move, for example. There are almost and infinite ways of legging it - depending on you short-term view of the stock.

Let me also add this that if you rather lean toward just one direction (bullish OR bearish), then the Slingshot or just a ratio backspread would be a lot better & simpler way of approaching it.

These trades, however are still very new for me and I'm still in the experimental stages - looking at stocks that show a tendency to move a lot and go through big volatility oscillations. My goal is to use them as a diversification mechanism against my range plays on the indexes and to hit a few home runs every once in a while - while producing some consistent small gains most of the time & never taking a big loss. So I welcome any further discussion and input from others on this, specially Charles.

- Ali

Ri$k Doctor

PCCRC
« **Reply #3 on:** April 15, 2008, 03:26:12 PM »

arp:
A+
Thank You

JuanISar

PCCRC
« **Reply #4 on:** April 17, 2008, 04:36:18 AM »

arp.

What you view as Vega exposure I view as control over Vega. What you have not characterized properly is that Vega works for you when a stock declines unexpectedly.

Similarly, many of my positions have returned profits simply by virtue of Theta decay in the front month options.

Finally, as you well point out, a strong move secures profits by virtue of Delta.

Your analysis is correct in the theory, but overlooks that in the practice, using the right entry points, you can easily avoid IV crush.

The PCCRC makes money in 5 out of 6 possible outcomes because you are putting Vega, Delta and Theta to work for you, and yes, even Gamma sometimes.

I will be presenting my work at the L.A. Trader Expo this summer. In addition I have numerous tutorials, DVDs and free information in my web site, just google "Juan, PCCRC" I'd be happy to answer any questions that you may have. I have been trading this approach almost exclusively for several years now and my results are stellar, and I have the data to show you.

arp

PCCRC
« **Reply #5 on:** April 17, 2008, 08:45:13 AM »

Juan,

Welcome to this forum.

QUOTE
What you view as Vega exposure I view as control over Vega. What you have not characterized properly is that Vega works for you when a stock declines unexpectedly.

I would not characterize exposure as 'control'. By exposure I simply means that you're taking that risk, which means that there is potential reward for it as well, assuming it does what you want it to do.

It's a question of whether you feel comfortable with that risk. For example, if I enter a high delta position (i.e. high delta exposure) that doesn't mean that I have control over delta. It simply means that if the underlying goes up, I'll be handsomely rewarded and if it goes down, I'll be punished. The same is true with volatility and vega risk. You're correct in that typically when a stock moves lower unexpectedly the volatility will rise and help the position.
QUOTE
Similarly, many of my positions have returned profits simply by virtue of Theta decay in the front month options.

That is correct, since it's a theta positive structure - but only as long as volatility of the back month options you own do not decrease to a point where they offset any benefits of the front month decay. Again you want volatility to stay the same or go higher on the back month options & that is critical, specially if the stock starts going sideways.
QUOTE
Finally, as you well point out, a strong move secures profits by virtue of Delta.

Yes, since your specific positions start with long delta, you want the market to go higher, or make a fast move lower in order for the extra long puts to kick in. Again, wanting volatility to at least stay the same, if not go higher on a move up, and for volatility to definitely go higher, on the way down.
QUOTE
Your analysis is correct in the theory, but overlooks that in the practice, using the right entry points, you can easily avoid IV crush.

I don't believe I overlooked that, since I did point out that the success of this position (or any other position, for that matter) depends on you being right about your assumptions at entry - in this case, that IV will not go lower. So if IV of a stock is near it's multi-year lows, it's a safe bet that it will either go higher or at least stay the same.
QUOTE
The PCCRC makes money in 5 out of 6 possible outcomes because you are putting Vega, Delta and Theta to work for you, and yes, even Gamma sometimes.

The position will work for you if the stock direction and volatility does what you expect. For example, if volatility drops, it's not working for you. Same as with delta & direction. However, you can say that a positive Theta is always working for, since time only moves forward.

The key here is to fully understand & accept the risk that one is assuming. So you can decide whether you want that risk or not. What I use more often (using fly instead of calendar in the center) would also be long vega, but not as much - so there is less risk if volatility does go lower - as the stock moves sideways. The same way that one can decide how much long delta one wants to have, one can also decide how much long vega one want to have - it's a personal choice.

My personal preference is not be married to any one strategy and look at various option strategies/structures as a set of tools, and depending on the market condition and my directional and volatility forecasts, I would apply the tool that makes more sense to me.

If volatility happens to be at multi-year lows for a stock, then the calendar structure in the center would make sense.
QUOTE
I have been trading this approach almost exclusively for several years now and my results are stellar, and I have the data to show you.

I congratulate you on you success. If I recall, based on your blog entries, you adopted this strategy at the start of 2006. The one thing to keep in mind is that since 2006 the volatility of the overall market has been on the rise (looking at monthly chart of VIX), therefore it makes sense to say that volatility of many stocks have been doing the same thing. In such an environment, it would have been generally profitable being 'long vega'. Many calendar-type trades with directional twists should have done well. You can probably verify this with the individual stocks as well. We might see a 'floor' for the volatility of a stock where implied volatility is at a 6 month or 1 year low, but from a multi-year perceptive the vol might not be low, therefore one day it could start breaking lower.

More volatility also obviously means more movement. So being long volatility and betting on big moves would've paid off since 2006. However, looking back to 2002 to 2006, we see that volatility was generally falling, and this can happen again. So a strategy that used to work great, might start not paying off as much or losing once the market changes. At minimum there will be less and less 'good setups' at some point. This is why it makes more sense to me to have a set of tools and adapting to the market conditions; instead of trading one strategy exclusively.

The key to my original post was that one can play the same setup, but with less vega; if one desires. I don't see a strategy as being 'better' or worse than another strategy. To me it's a matter of how much risk I want, and where do I want to place my risk.

- Ali

JuanISar

PCCRC
« **Reply #6 on:** April 19, 2008, 06:25:36 PM »

Thank for the comments. However, your assumptions that the winners are due to or restricted to certain general market conditions are not supported by my results. We could discuss them at length, I suppose, but I think I'd leave discussion on my trades for my blog, if you don't mind :-)

The fact is that I view Vega as another way to make money. The PCCRC is not just a Vega play. In fact, my biggest winners have been Delta winners (even when Vega declines), not Vega winners (although I have some of these too). My strategy has more to do with the way I pick stocks and when I enter the PCCRC rather than the Volatility environment of the market. Since I back-tested these positions through the low IV environment of years past, the high IV environment of the last two years is not a requirement. In fact, during a high IV environment, it is that much more difficult to find candidates under my approach. When I selected this approach, I was thinking on how to protect myself against another 9/11. As it turns out last August when Volatility suddenly increased, I made good profits, but I don't have to have high IV to profit handsomely.

Again, your comments are correct, theoretically, but you obviously have not explored it sufficiently in the practice to see its real power. I look forward to your returning the complement and visit my blog with your questions and comments.

---

arp
RDCC
Newbie
Posts: 21

PCCRC
« **Reply #7 on:** April 21, 2008, 03:28:53 PM »

QUOTE
Again, your comments are correct, theoretically, but you obviously have not explore it sufficiently in the practice to see its real power

I'm a student & will always be one. I don't claim to be an expert. But I've been trading the fly/condor + extra calls *or* puts (Slingshot) configuration for a while with great results. And I'm now exploring the double Slingshot variations (fly/condor + extra puts *and* calls) for both directions - but leaning more on one side vs. other. My preference is to use the fly variation most of the time, for reasons what I've mentioned earlier.

I explored the calendar variation years ago - what you call PCCRC is roughly the same as what Optionetics has been calling TLJ, for many years. It's fine strategy, but as I've said, under the right conditions.
QUOTE
your assumptions that the winners are due to or restricted to certain general market conditions are not supported by my results.

Are you suggesting that this strategy makes money under any/all market conditions?

There is basically two points I've been making and I'm not clear which one, if any, you're disagreeing with:

One: There is risk in this strategy, just as there is risk in any other non-arbitrage strategy. It's important for any trader to understand what those risks are, so that they can be managed. That is what I've been highlighting. Are you suggesting there is no risk in this strategy?

The second point that I've been making is that there are different ways of achieving the same result - that is to catch big moves up or down, and having a positive theta in the middle, while you wait for the big move to happen. You can 'tweek' the greeks, in many cases, to your liking. Example: You might find a good setup but IV might be in the mid level, instead of real low. In such case, a fly/condor in the middle might be the wiser choice than a calendar. Or you might want to shift most of your vega exposure to the downside, since that is where it would benefit more, in case of a fast drop. Greeks are not constant, you can have low vega in the center, and high vega below. There are many configurations possible. Are you suggesting that there is just one right way of playing for big moves?

- Ali

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

PCCRC
« **Reply #8 on:** April 27, 2008, 06:27:46 PM »

Thank you Juan and Ali for this discussion. Sorry that I have been busy with other matters until now. At this time, I tend to agree with Ali's point view because it does depend on market conditions and the individual's appitite for more or less risk or to also be playing the intra-month vega game.

Juan is still welcome to plug his blog and I welcome anyone to copy and paste what is written there to further comment on here.

JuanISar

PCCRC
« **Reply #9 on:** May 04, 2008, 06:35:02 AM »

I'd be happy to answer any and all questions posted in my blog.

http://stockoftheday.blogspot.com/

CoachPhil

PCCRC
« **Reply #10 on:** May 05, 2008, 07:57:16 AM »

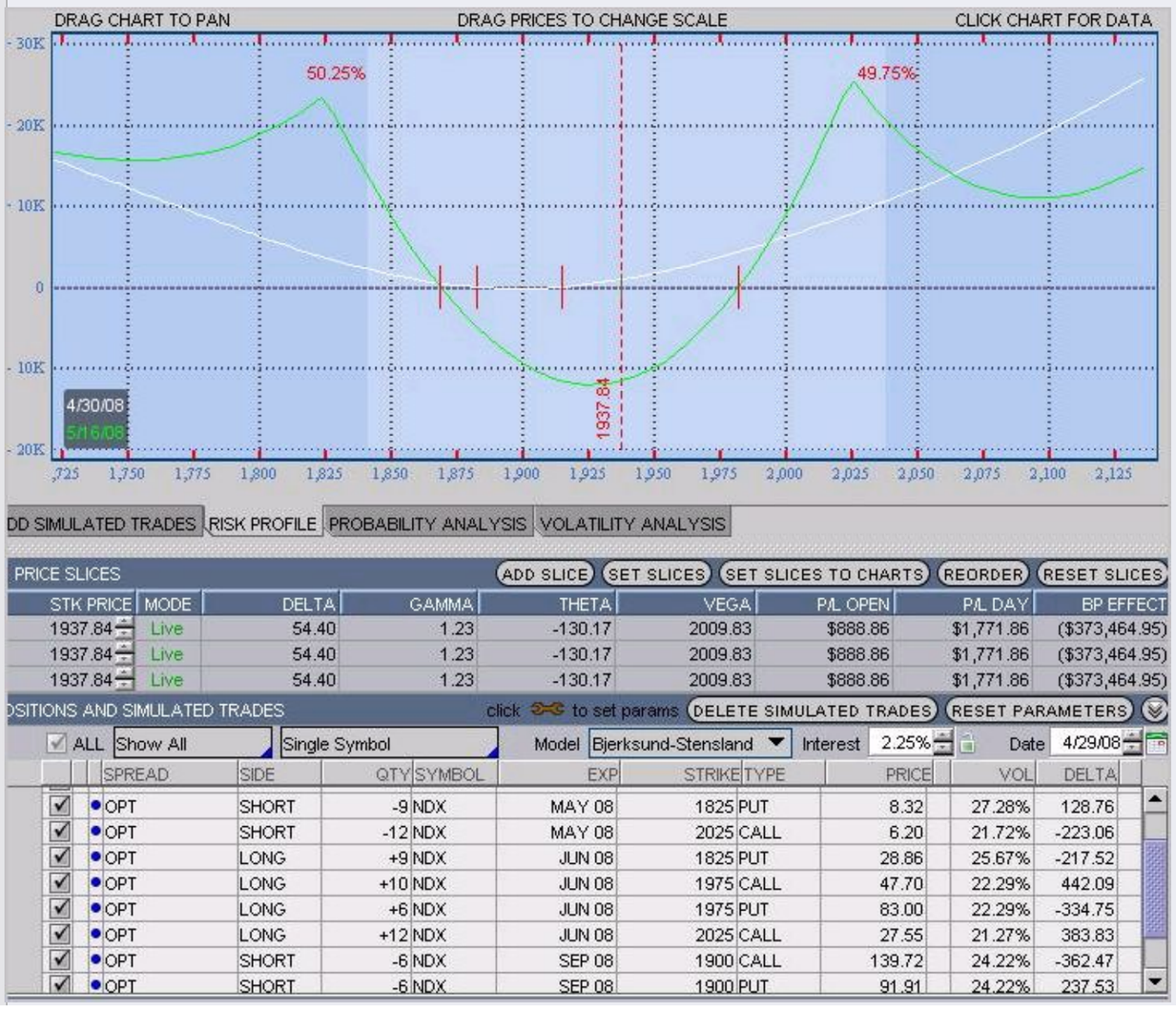
Interesting discussion. First let me say Hi to my friend Charlie and apologize for the long absence and a little shout out to Juan as well from the old days.
I have been toying around with similar position and tweaking to get the Greeks how I like 'em. My contribution is this.
A general position I came up with called the Ziggy because the risk graph resembles the nose and head of Ziggy (the comic strip character) is:
Buying OTM Call and Put calendars involving the 2 closest months. [This is the vega positive, theta positive aspect with a wide profit zone over a range.]

Then add a next month strangle or straddle with a smaller ratio to give profit on a big move. You can adjust number of calls and puts to tweak graph. [This adds more positive vega, negative theta and then more deltas, because of gamma, should the market move.]

I then sell a deferred month short straddle in smaller numbers to reduce the huge vega exposure. This is basically a vega lever. Sell more straddles in a further dated month and you ratchet down vega as long as you balance it with the other positions.

So basically you have front month OTM calendars, next month long strangles/straddles in a ratio and then a much further dated month short straddle.

I opened one on NDX a week ago and the risk graph looks like the risk graph below:



Basically, this is almost delta neutral at the opening, certainly positive vega but less than if I just had the MAY/JUN calendars (9*1825P and 12*2025C) and the long JUN 10Cx6P ratioed straddle, and then slight negative theta which was also reduced due to short 6* SEP 1900 straddles.

You will notice the MAY/JUN calendars and JUN strangles have been ratioed to balance the chart the way I wanted it and tweak it.

Basically I need a large move or implied volatility increase and with MAY's time running out, the position is down about $900 (it was up $3k at one point) but I did not pull the trigger to close yet. The maximum risk is limited by MAT expiration despite the higher margin requirement.

I am exploring options to adjsut the back month strangle and short straddles into FLYs over time but, for now, will probably close everything sometime this week as theta kicks in.

Basically, I want positive vega and a non-directional position. I had to bias it bullish so that an up-move would have delta gains to overcome vega losses. So even though risk graph dips to the downside, vega gains will overcome initial delta losses. I am trying to have cake and eat it too. It worked well on NDX surge last week but todays pull back has shrunk it back down a bit.

Obviously the purpose of this position is for stocks/indexes when IV is relatively low and an increase in IV or significant move is expected. I have tried to solve some of the issues that come by simply going long the straddle or strangle as well allowing me a few legs to be able to adjust over time if I choose.

Comments welcome from this good bunch.

arp

PCCRC

« **Reply #11 on:** May 07, 2008, 07:46:35 PM »

Hi Phil,

I like the creativity. There are long calendars (May/June) and short calendars (June/Sep) embedded in the position. I think this has the elements of what the Dr. calls 'time butterflies'. The margin as you pointed out is high, but should be OK with a risk-based margin account.

As I ponder this position, a few thoughts pop into my head:

1. Can we get a simpler position that has similar characteristic to this? Here are some thoughts:
  a) Maybe a long June straddle + fewer short May strangle?
  b) Or equal # of short May strangles + few extra long wings on the outside,
  c) A double OTM calendar or butterfly with some extra longs on the outsides,
...

2. Would any horizontal IV skew that might develop between May/June, June/Sep and May/Sep make the position more difficult to manage, than a normal calendar where there is just one horizontal skew to worry about?

3. Do I feel comfortable with the negative theta on an index product? (I have a bit of bias for wanting to have positive theta on index products, due to their higher tendency for mean reversion and general lower IV, compared to some high beta stocks).

- Ali

ajna

PCCRC

« **Reply #12 on:** May 08, 2008, 11:34:36 AM »

Phil,
Interesting trade. Some questions came to my mind:

1) Do you plan on scalping gammas as well with this position? Or is this more of a set it and forget it situation (or at least until 2 wks prior to expiration).

2) Any thoughts of trading around the intermonth vol skew? (not sure how viable this would be on an index product)

3) If your planning on holding this only till the 1-2 weeks before front month expiration, why not buy the front month straddle instead of the back month. It would help lower your vega exposure, decrease cost, and give you more gamma which it looks like you desire anyway.

st

CoachPhil

PCCRC

« **Reply #13 on:** May 08, 2008, 12:11:23 PM »

Great questions and I am going to walk through all of them. It is too close to MAY expiration to put a real example and manage it and JUL is not trading yet so I intend to wait until MAY goes off the books and I will work on the questions tonight and get back with some detailed responses to keep the discussion going.

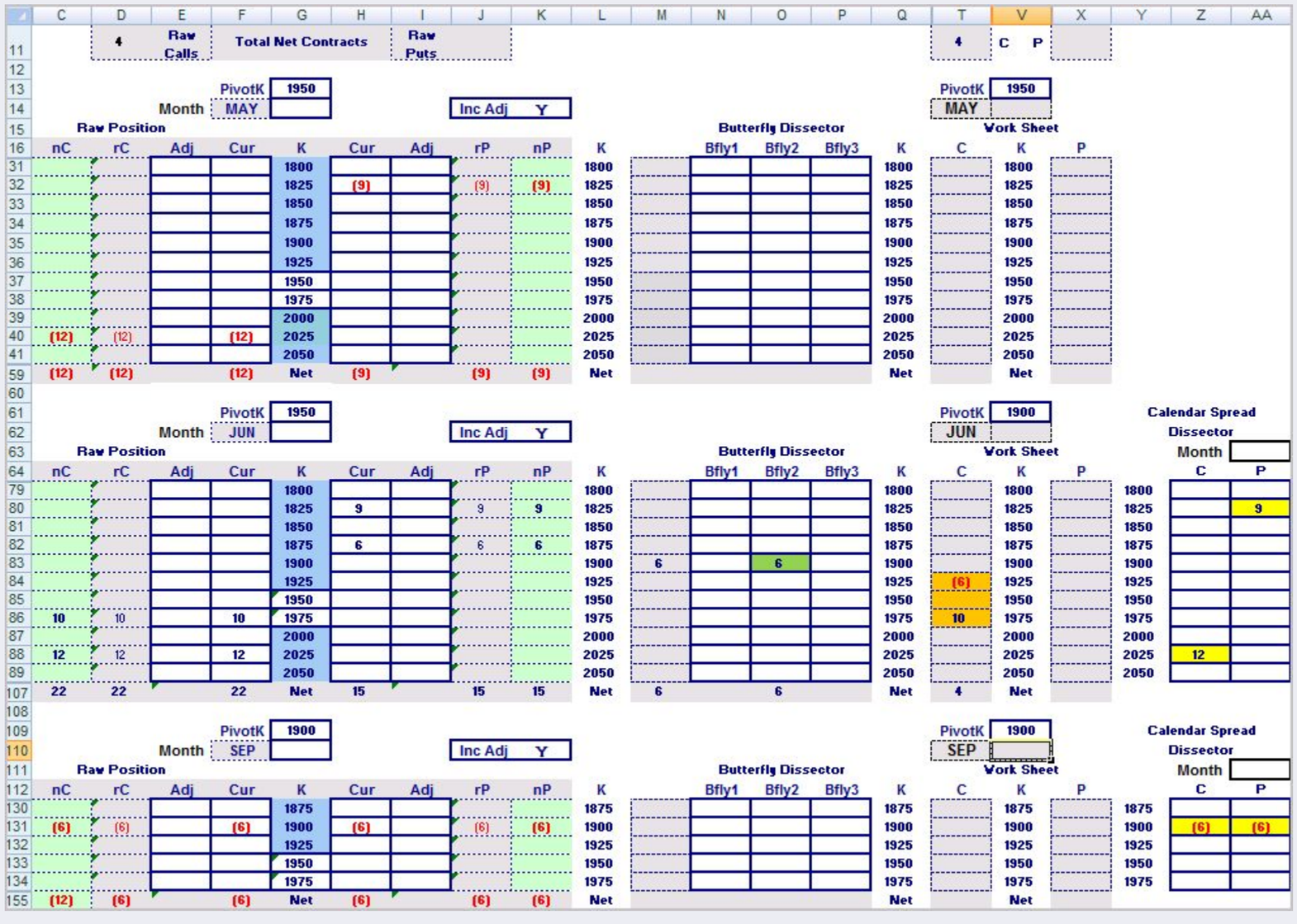
Some of the questions are ones I have thought of and I have looked at alternative positions in answer to the question: "Is there an easier way to achieve the same characteristics? So I will post some more info shortly.

Ri$k Doctor

PCCRC

« **Reply #14 on:** May 09, 2008, 06:14:14 AM »

I agree with Ali and eagerly await your further explanation for warranting the time butterflying (calendars highlighted in yellow -- all calendared to JUN) which are usually reserved for IV relationship plays. Then you have a JUN (6) by 10 * 1925/1975 backspread (highlighted in orange) along with 6 JUN 1875/1900/1925 butterflies (highlighted in green). This has a slingshot effect to the upside and if that is your objective that is fine. besides the calendarizing, the way that you have chosen, why do you have those particular strike placements? Thechnical (charting)reasons?



CoachPhil

PCCRC

« **Reply #15 on:** May 09, 2008, 06:18:29 AM »

(arp @ May 07 2008,11:46)
QUOTE
Hi Phil,

I like the creativity. There are long calendars (May/June) and short calendars (June/Sep) embedded in the position. I think this has the elements of what the Dr. calls 'time butterflies'. The margin as you pointed out is high, but should be OK with a risk-based margin account.

As I ponder this position, a few thoughts pop into my head:

1. Can we get a simpler position that has similar characteristic to this? Here are some thoughts:
   a) Maybe a long June straddle + fewer short May strangle?
   b) Or equal # of short May strangles + few extra long wings on the outside,
   c) A double OTM calendar or butterfly with some extra longs on the outsides...
2. Would any horizontal IV skew that might develop between May/June, June/Sep and May/Sep make the position more difficult to manage, than a normal calendar where there is just one horizontal skew to worry about?

3. Do I feel comfortable with the negative theta on an index product? (I have a bit of bias for wanting to have positive theta on index products, due to their higher tendency for mean reversion and general lower IV, compared to some high beta stocks).
- Ali

Ali-
Thanks for the questions!
Finding a simpler way to achieve this curve would be great and I am still playing around with ideas for low and high vol situations.

1. I am looking at ways to get similar risk/reward profiles. The short MAY straddle and long JUN strangle does not seem to curve the ends up in order to profit from big moves over time. The initial risk curve is delta neutral but the expiration risk profile looks like a calendar upside down V. If you reduce the short straddles, then it turns up some but it is extremely wide and therefore a big move would be required. Also, I find it to have too much positive vega and negative theta. Of course, I have not tried every single combination of strikes and ratios. To be honest, I looked at it with JUN and JUL since MAY is so close to expiry. Maybe having too much time to go affects the curve currently but not sure if this gets me where I want to have it.

2. Short front month strangles with extra long wings is a nice shape but my initial concern again, is that the expiration break-even points are really wide requiring an extremely large move in order to profit there. it has positive vega but negative theta. I can narrow the strangle and wing distances to get a good curve for the next few days but worry about expiration width of break-even points though it is hard to narrow it so much given the width of strikes in NDX.

3. I will have to look at double OTM FLYS with extra wings as well.

Horizontal skew not as much a factor on the indexes, as compared with the intramonth skew on calls and puts.

As for negative theta, if I can reduce the theta down a bit then I would try not to worry about it. For example, if, in dollar terms, I have a few hundred dollars of positive theta per day then I can "afford" to hold the position for delta gains or vol gains. Death would be if there were no movement and/or shrinking IV so there are two swords cutting you.

One way to get positive vega and positive delta is to sell a front month straddle and buy next month strange.
I currently have short MAY 1950 straddles and long JUN 1875/1925 strangles in a ratio with more short straddles than strangles. Basic risk graph is an upside down V but it has huge negative theta, positive vega and slightly delta neutral. I have to play with the strikes and ratios to get the Greeks I like. This one has break-even points 1915 and 2005 so it has a decent range with a week left to go and basically, I am looking for the positive theta going into Monday or Tuesday to get out or adjust. Also, I biased it with more downside room so that a drop will increase vols and increase the position.
I will keep playing around with these. I think JUN/JUL is too far off in time yet to get the risk graph I like given the negative theta of the position so I will wait until next week to start looking at examples. Also, I am playing with other combinations as you suggested. My main goal is to narrow the break-even points so that I can wait for a decent move with minimal theta and some vega gains now with vols relatively low.

CoachPhil

PCCRC
« **Reply #16 on:** May 09, 2008, 06:26:58 AM »

The particularly strike placements are actually just to get the risk graph neutral and centered. Given the width of strikes and such I had to adjust the strikes to get the nose centered on the current price and the wings to rise like they do in the graph. So it was just constant adjusting until the risk graph looked like that.

The slingshot effect to the upside was to overcome vol loses on rising market since the position was +vega. I did not mind having bullish bias since a drop of any significance should hopefuly have come with vol increases which would help the position.

I am trying to replicate it on JUN/JUL but not having same success.

I basically started with the two OTM calendars to create a profit zone for moves away from the current value and started tweaking to see if I could find a position that could be reproduced for the Greeks and curve I wanted.

I am trying some of the suggestions to reduce position sizes and still get the non-directional bias with the Greeks I like. Working on this today while waiting for the grains to open

Stay tuned.

I agree that my position as is a little more complicated than it needs to be so I will look for one level down of sophistication.

Ri$k Doctor

PCCRC
« **Reply #17 on:** May 09, 2008, 07:20:16 AM »

QUOTE
The slingshot effect to the upside was to overcome vol loses on rising market since the position was +vega.

The backspread is not going to like the vol crush and I don't think that the deltas manufactured are going to help you unless it is a fast and large protrated move beyond 2000.

CoachPhil

PCCRC
« **Reply #18 on:** May 09, 2008, 07:30:15 AM »

Yeah the goal is for delta gains to overtake vol losses which looked like a decent idea given vols are relatively low now but any huge upward spike and vol crush could be much greater than any delta gains.

Still tinkering a bit with less spreads.

arp

PCCRC
« **Reply #19 on:** May 09, 2008, 01:43:11 PM »

Just to follow-up regarding call backspreads potentially not doing well against up-side moves on an index:

Due to the existence of supply skew in the index equity products, it would make more sense to not build a symmetrical structure. I.e., hedge the downside with being "more" long premium and hedge the up-side with being "less" long premium. This is what I do with my index theta plays when it comes to hedging/adjusting them. For example using a long call vertical instead of calls to hedge/adjust the upside, and using plain long puts to hedge the downside.

The static shape of a risk-graph can be deceptive since it does not reflect all the dimensions at work; specially how vol & momentum of price work differently on the down-side vs.up-side.

- Ali

Ri$k Doctor

PCCRC
« **Reply #20 on:** May 09, 2008, 02:24:00 PM »

I agree.

CoachPhil

PCCRC
« **Reply #21 on:** May 14, 2008, 07:34:43 PM »

Basically, I cannot solve the problem of the asymmetrical nature of volatility. It usually drops when market goes higher and picks up as marekt drops. The symmetrical risk graph, as pointed out by someone else does not take this into account and you would have a hard time getting positive delta on the upside enough to overcome being long vega.

NDX strikes are too spread out to really fine tune it anyway.

Basically, you want non-directional, positive theta or at worst small negative theta and reasonable positive vega putting this on when vol is relatively low and it is difficult to get all of this right as vol drops on market increases hurt the right side of the graph.

Flys with extra wings or more long straddles than short straddles, etc, just dont work well on NDX since the expiration BEs are just way too wide to be worth it.

One strategy I do like for non-directional range bound and positive theta and positive to flat vega is short the front month straddle and long the next month strangle in a ratio.

For MAY expiration last week, in the NDX, I put on short 10 MAY 1950 straddles and long 7 JUN 1875/1925 strangles. The ratio and strangle strikes were selected to get the risk graph how I want it. I had significant positive theta with this and slightly positive vega with wide MAY expiration be points. decay was bigger than vega so a move higher with vol decrease would not hurt outright as long as it moved up slowly and not outside BE points.

Problem was market moved up strongly so I added the 2025 call calendar to prop up the right side of the graph. Increased positive theta but also increased positive vega but stll way more theta and I am just waitng for expiration to keep earning theta (1 more day to go). Still relatively delta neutral.

So for low vol environments I got a wide profit range with positive vega os if vols kick in I make vol money. If market chops I got decay money and risk is a large move. I can add OTM calendars once on a side to widen profit zone.

Again this is short straddles in the front month and long fewer strangles in the back month or next month with the strikes and ratios adjusted to center the graph on current price and cover potential range. This position is positive theta, positive vega, delta neutral. Will see next week if I can post another one using JUN/JUL options.

ajna

PCCRC
« **Reply #22 on:** May 15, 2008, 11:39:48 PM »

Coach,
I'm a bit surprised this trade was positive vega given the ratio of more short contracts. Perhaps the limited time to MAY expiry helped out. Could you report the Greeks when this position was placed?

Also, it seems like the problem of lower vol and upward move remain, except that you've added an adjustment. For JUN/JUL, perhaps skewing the short straddle a bit positive delta, and skewing the long straddle/strangle a bit - delta could help.

ST

CoachPhil

PCCRC

« **Reply #23 on:** May 16, 2008, 04:52:42 AM »

(ajna @ May 16 2008,3:39)
QUOTE
Coach,
I'm a bit surprised this trade was positive vega given the ratio of more short contracts. Perhaps the limited time to MAY expiry helped out. Could you report the Greeks when this position was placed?

Also, it seems like the problem of lower vol and upward move remain, except that you've added an adjustment. For JUN/JUL, perhaps skewing the short straddle a bit positive delta, and skewing the long straddle/ strangle a bit - delta could help.

ST

ST:

The position was long vega due to the 2 calendars OTM as well as the short SEP straddles. Remember vega is higher the further out in time so the combination of the calendars and short straddles as well as I think some long straddles leads to positive vega.

I think it has too many layers to work on a sharp increase and vol decrease or if the market wallows and vol drifts the theta and long vega will kill. The only time it makes huge money is a vol spike and market drop so I might as well just play that scenario alone.

On the additional position I discussed where I was short front month straddles and long fewer straddles in the next month is just non-directional with a partial hedge. It produces less risk than being short just the fron straddle and is heavy + theta and +vega so basically looking for market to sit still and decay. I put this one with 2 weeks to go which I am currently waiting for set to finalize profit.

So for NDX I still have not fully solved the issue as some of the great suggestions here do not work as well with wide strikes in the NDX which cause a really wide expiration break-even points. Even some slingshots would need a 2 sigma move to be profitable unless it moved the next 2 days huge after putting it on.

I am working through some Natenberg intra-market volatility spreads and will post them in a separate thread.

Thanks for all the input.

CoachPhil

PCCRC

« **Reply #24 on:** May 16, 2008, 04:56:23 AM »

ST were you talking about the second position I mentioned. I just reread your question and realize you might have been referring your question on positive vega to the Short 10 MAY Straddles / Long 7 JUN Strangles?

If so then the position was +vega given the greater short straddles ATM while the strangles were using strikes that were OTM for the puts and ITM for the calls were vega is relatively less despite the extra month of time. Therefore, the combo led to +vega. It did have some negative theta due to the JUN straddles but I tried to keep it pretty low. I do not remember the Greeks when I put the position on so I will replicate another one now using JUL/JUN and see what Greeks I get to ensure it was not just a situation close to expiration but even further out it is positive vega.

JuanISar

PCCRC

« **Reply #25 on:** October 27, 2008, 10:50:44 AM »

The performance of my PCCRC papertrading account since June 2007 hit >97% last week.

The worse week ever in Wall Street was the best week of my trading career. That is not to say that my strategy would not also make good money, should the trend change.
I thought you may want to know....

kubikconcepts

Implied Volatility Behavior

« **on:** October 19, 2008, 03:52:41 PM »

Hello,
It is almost a time tested principle that IV goes up when there is fear in the market (usually when the markets go down) and IV goes down when the markets are going up or are calm. I have looked at a number of charts and found that when IV goes up the underlying goes down and when IV goes down the underlying goes up. Sure one could also phrase this as: when the underlying goes down the IV goes up and when the underlying goes up the IV goes down.

From what I have read, when markets go down people start buying options (presumably more puts), due to pure supply/demand semantics the prices of options go up and therefore IV goes up. Another way of looking at this is: in a falling market the underlying will move through more strikes and therefore the prices of options go up and hence IV goes up?

During times of calm I can understand why IV would die down to low levels.

QUESTIONS:
========
However, during times of bullishness, why does IV go down?

I have not been able to spot situations where IV went up during uptrends. Am I wrong in coming to this conclusion?

If IV indeed does come down during bullish periods, there is an equal chance of the underlying moving up through strikes. Why does this not cause a spike in IV?

Thanks.

Ri$k Doctor

Implied Volatility Behavior

« **Reply #1 on:** October 19, 2008, 04:43:09 PM »

Good question. Answer: Covered Writes vs. Married Puts. Puts being demanded on the downside forces Market Makers to sell premium creating more ids to buy it back along with continued demand for insurance.

To the upside, people buy stock and sell calls to enhance thier return. In addition, shareholders sell calls (creating supply pressure) to enhance their returns.

kubikconcepts

Implied Volatility Behavior

« **Reply #2 on:** October 19, 2008, 05:14:08 PM »

An answer could not have been any more simpler, and any more illuminating. Thanks Charles.

aguison

Trading in this high volatility market

« **on:** October 14, 2008, 05:30:00 AM »

How would you trade in this high volatility market? For people doing income trades, this environment has not been friendly and conducive to people employing such strategies.

I am thinking for those people making a living from trading, there has to be a 'Plan B'. Any suggestions?

Regards

Al

Ri$k Doctor

Trading in this high volatility market

« **Reply #1 on:** October 14, 2008, 06:55:46 AM »

It has been a dangerous environment to trade and you don't always have to be in the market. It is best to wait for the market comes to "You". "You", in this respect is different for everyone.

The market has a way of speaking to us with its emotive powers. It is either;

Begging us to get long or short
Scaring us from stepping up or getting involved
Freezing us from making adjustments
Confusing us with what to do
Prodding us to over trade
Motivating us to pick bottoms or tops
Etc.

It seemed, after some of last week??s plunges that it hat it was the bottom. You knew it had to be close because the government kept trying to do more each day, like a guy who won? ?t take ??No? on the 3rd date. If you tried to get long, it was bloody. On Friday when the G7 were getting together, you knew that the market would be rallying huge, but how many bullets could you have had left?

It is important in risky markets to keep your powder dry and be choosy with opportunity. You do not have to trade as big because the markets are moving big enough for a ONE lot to make as much as a TEN lot in normal markets. It is like there is 2 months of movement in a space of 10 days. Sometimes a Year??s worth of movement in a half an hour minutes (The Dow moved 900 in 32 minutes on Friday).

With regard to 'Plan B', you are basically talking about finding a new strategy and when experimenting, you need to really trade small. You recently modified your usual Iron Condor approach by adding a couple of wings on the ends along with a closer strangle and although your ratio was steep (6 condors for each set of strangles) the market moved far enough for your strangles to overshadow the condors and be profitable.

What has the market begging you to do? Answer: Gamma Scalp. Is it easy to do? Yes. Is it worrisome to do in a High IV environment? Yes. So you try it small and go with it for as long as it keeps working.

Perhaps taking some small directional shots with ATM verticals that are temporarily IV proof (when the long and short strikes are equidistant from the underlying price). When doing this, try to diversify with equal amounts of bullish spreads as bearish spreads.

There are options strategies to accommodate any market scenario and the market has a tendency to scream at you to do something. It is either the ??Ducks Quacking? and you have to feed them (Fade Them) or it is ??Buffalos Stampeding? and you have to Go With Them or get trampled. Experience with getting in the game will be your best teacher, but REMEMBER: Keep itSmall*.

*I know you like the NDX but a ONE lot is 40X the size of QQQQ.

naturalogarithm

Poke holes in this strategy please
« **on:** September 23, 2008, 06:11:52 AM »

SPY underlying at 120:
Long 140 MAR 09 calls
Long 100 MAR 09 puts

Short ATM calls/puts for the front month (OCT 08)

Or

Keep the longs and short of the front month iron condor, so I'd be short OCT'08 120 calls, short OCT'08 120 puts, long 110 puts and long 130 calls.

OptionMechanic

Poke holes in this strategy please
« **Reply #1 on:** September 23, 2008, 09:34:45 PM »

Can you give us the Vega values you are working with?

The current IV level as compared to it's historical mean?

The Implied Vol's term structure?

And the 200 day Historical Volatility?

OptionMechanic

Ri$k Doctor

Poke holes in this strategy please
« **Reply #2 on:** September 24, 2008, 11:10:42 AM »

Here is a poke. IV is on the moon and you are getting long a boat load of premium (vega):

naturalogarithm

Poke holes in this strategy please

« **Reply #3 on:** September 26, 2008, 06:54:15 AM »

So would front month have bigger whipsaws or back month options? If I'm short the back month, long the front month, which leg would lose more in a declining vol environment?

thanks

Ri$k Doctor

Poke holes in this strategy please

« **Reply #4 on:** September 26, 2008, 07:36:04 AM »

Although the front month has farther to drop in IV (currently 37% vs. 30%) and 6x greater time erosion (theta: .18 vs. .03). The Vegas of the MAR Strangle is .43 per 1% vs. only .24 for the OCT Straddle by twice. So, it depends on where IV corrects down to between the months in the decline you are looking for.

SPY | SPDR S&P 500 | Easy to Borrow | Vega | Theta | all

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
119.49 Q	-1.30	119.49 Q	119.50 Q	28 x 121	87,739,797	118.83	120.7907	118.51

TRADE GRID | SYMBOLS

OPTIONS | Single | Composite

CALLS VEGA	CALLS THETA	CALLS BID X	CALLS ASK X	EXP	STRIKE	PUTS BID X	PUTS ASK X	PUTS VEGA	PUTS THETA
OCT 08 (21) 100									37.11%
.12	-.09	4.35 B	4.40 B	OCT 08	119	3.95 B	4.00 C	.12	-.09
.12	-.09	3.80 B	3.85 B	OCT 08	120	4.40 B	4.45 B	.12	-.09
.12	-.09	3.30 B	3.35 B	OCT 08	121	4.90 B	4.95 I	.12	-.09
MAR 09 (175) 100									29.25%
.23	-.02	22.50 N	22.65 B	MAR 09	100	2.87 B	2.97 B	.22	-.02
.21	-.01	1.60 C	1.70 I	MAR 09	140	21.95 B	22.15 I	.18	-.01

naturalogarithm

Poke holes in this strategy please

« **Reply #5 on:** September 26, 2008, 08:27:21 AM »

That's great insight. Thank you

Ri$k Doctor

Poke holes in this strategy please

« **Reply #6 on:** October 03, 2008, 01:08:22 PM »

After all this turmoil, you would be down 1.01 per spread, so far, going from a 3.68 credit (middles) to a value of 4.69 (also the middles between Bid and Ask):

SPY | SPDR S&P 500 | Easy to Borrow | Vega | Theta | all

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
110.34 A	-1.51	110.29 Q	110.34 Q	7 x 47	461,244,062	112.86	115.45	109.68

TRADE GRID | SYMBOLS

OPTIONS | Single | Composite

CALLS VEGA	CALLS THETA	CALLS BID X	CALLS ASK X	EXP	STRIKE	PUTS BID X	PUTS ASK X	PUTS VEGA	PUTS THETA
OCT 08 (14) 100									50.92%
.06	-.08	.94 N	.97 X	OCT 08	119	9.45 C	9.80 C	.06	-.08
.06	-.07	.72 B	.80 X	OCT 08	120	10.25 B	10.60 B	.05	-.07
.05	-.07	.56 B	.68 N	OCT 08	121	11.10 B	11.45 B	.05	-.06
MAR 09 (168) 100									34.80%
.26	-.03	16.15 C	16.60 N	MAR 09	100	5.55 I	5.85 C	.26	-.03
.13	-.01	.73 N	.85 I	MAR 09	140	29.85 N	30.55 N	.10	-.01

Although Vega worked favorably, the delta hurt the spread due to the magnitude of the move.

OptionMechanic

PRICLESS
« **on:** September 20, 2008, 07:43:33 PM »

"??you do not want to risk more than 7% on any one trade, and there is a lot of people say not more than 2%. So once you establish your rule for what percent you will risk on anyone play, Stick to it. Even if you make 7 or 8 times your money you have got to avoid the usual thing that people do: kick themselves for not doing more, you have got to be happy with what you did. You have got to be happy that play came into your consciousness, your awareness, that it was available and you caught some piece of it. You have got to be appreciative of everything that you make. And that makes the whole game fun, - because you do not want to be aggravated with this kind of stuff-. You will have a much better career if you can have a passion for it??"

From: Ri$kDoctor Strategy Intensive
Calendar Configurations.
Section 2, Minute 61:21

Priceless.

Thank you Charles.

OptionMechanic

Ri$k Doctor
Administrator
Hero Member
Posts: 3249

PRICLESS
« **Reply #1 on:** September 24, 2008, 11:31:40 AM »

I said that? Just Kidding. Thanks.

mbbcat

Short Sale Ban
« **on:** September 21, 2008, 08:17:15 PM »

As most are aware, short stock is an integral part of the financial system especially the options & futures markets as well as funding trades such as exchange for physical (efp's) etc.

The SEC has banned initially the short sale of 800 stocks for 9 days, but it may extend the list to all stocks and may perhaps make the ban permanent for political reasons.

I would like to get views on how this may impact the operation of the markets & possible tactics to work with the new environment to manage risk & use the new situation as opportunity?

A few things I note so far;

Perhaps predictably there was a massive short covering rally in the indexes and the broad market, however VIX remains almost unchanged (as Friday's close). Does that perhaps mean the $VIX as a buy / sell indicator has broken / altered?

Spreads widened and massive premiums - well if the MM's can't hedge....

It will be interesting to see developments in the Single Stock Futures and (outside USA the CFD / spread bet markets) markets should the ban persist / be extended - provided that all short bias positions are not banned!

naturalogarithm
Newbie
Posts: 18

Short Sale Ban
« **Reply #1 on:** September 22, 2008, 07:49:30 PM »

(mbbcat @ Sep. 22 2008,12:17) QUOTE

Spreads widened & massive premiums - well if the MM's can't hedge....

What do you mean by this?

Ri$k Doctor

Short Sale Ban
« **Reply #2 on:** September 24, 2008, 11:26:36 AM »

MMs are the Market Makers and they will have to widen their bid/ask spreads (their markets) in order to coexist in an environment where they have fewer choices to hedge (selling deltas via selling calls or buying other puts as opposed to shorting stock). This will bring back the **Bullet*** business if the SEC does not ban that (like it once did).

A permanent ban would boost individual stock futures but the pricing model will change because the futures will be depressed to a new ??fair? value below the ??theoretical?? value (based upon the prevailing interest rate and the present value of the individual stock??s dividend stream).

*Bullet - A position such as long stock vs. deep ITM puts meant to serve as inventory of long stock (delta neutral) in order to get around the short stock rule by being able to sell on a down tick and short stock in effect.

kubikconcepts

slingshot: why credit call verticals + puts?
« **on:** September 23, 2008, 07:26:34 PM »

Charles,
In the OPD book, you describe the slingshot as selling credit call verticals that finance the calls. Wouldn't this be the same as credit put verticals financing the put? In other words, can the slingshot also be described as Long Underlying + Credit Put Verticals + Put?

Thanks

Ri$k Doctor

slingshot: why credit call verticals + puts?
« **Reply #1 on:** September 24, 2008, 06:48:52 AM »

QUOTE
...can the slingshot also be described as Long Underlying + Credit Put Verticals + Put?

No. To get the same shaped slingshot, you would have Long Underlying + (ITM) Debit Put Verticals + (OTM) Put.

A Reverse Slingshot would be Short Underlying + Credit Put Verticals + Call

emk662

What is the reasonable strategy allocation?

« **on:** September 04, 2008, 11:58:20 PM »

Can Risk Doctor tell us, what the reasonable strategy allocation is for trading options. The objective is to become rich, like making over 50% a year. I like to do high probability credit spreads to get stable returns, but sometimes, perfer outright calls/puts, or low probability vertical spreads to speculate. I am trading options on equities. Just started.

What is your strategy allocations? What markets?

Thanks a lot.

Ri$k Doctor

What is the reasonable strategy allocation?

« **Reply #1 on:** September 08, 2008, 10:14:07 AM »

Here is an article that discusses your question.
TradersJournalArticle.pdf

emk662

What is the reasonable strategy allocation?

« **Reply #2 on:** September 09, 2008, 06:15:45 AM »

Thanks. On your TradersJournalArticle.pdf file, page 5, regarding that APPL trade, you said, "The elevated IV was not attractive enough to sell any OTM credit call verticals because they remained quite cheap". I am confused here. I guess high IV will make the OTM credit call spread more expensive than low IV. So, credit call spread will make sense. Can you add some color on that?

CoachPhil

What is the reasonable strategy allocation?

« **Reply #3 on:** September 12, 2008, 02:21:36 PM »

(emk662 @ Sep. 05 2008,3:58)
QUOTE
Can Risk Doctor tell us, what the reasonable strategy allocation is for trading options. The objective is to become rich, like making over 50% a year. I like to do high probability credit spreads to get stable returns, but sometimes, perfer outright calls/puts, or low probability vertical spreads to speculate. I am trading options on equities. Just started.

What is your strategy allocations? What markets?

Thanks a lot.

As a newbie your first focus should not be getting rich and making 50% a year. First try and master the concepts that RD teaches and down the road the profits should follow. Beginners have a long path to profits when it comes to options and swinging for the fences right out the gate will lead to a lot of strikeouts.

Ri$k Doctor

What is the reasonable strategy allocation?

« **Reply #4 on:** September 17, 2008, 10:11:44 AM »

(emk662 @ Sep. 09 2008,10:15)
QUOTE
Thanks. On your TradersJournalArticle.pdf file, page 5, regarding that APPL trade, you said, "The elevated IV was not attractive enough to sell any OTM credit call verticals because they remained quite cheap". I am confused here. I guess high IV will make the OTM credit call spread more expensive than low IV. So, credit call spread will make sense. Can you add some color on that?

In terms of IV it was high perhaps by a few cents but in terms of absolute value and risk/reward, it was too cheap for me to want to be short.

kubikconcepts

Can you please show an example of timetool

« **on:** September 12, 2008, 09:54:24 PM »

Charles,
I have your books and courses. I am not able to find an example of how to use the timetool. Of all the position dissection tools, this is the only one that i cannot find an example for. Can you please provide an example that shows how to dissect a position using a timetool.

Thanks,
PK

Ri$k Doctor

Can you please show an example of timetool

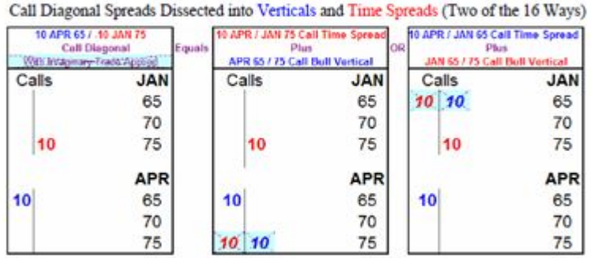
« **Reply #1 on:** September 14, 2008, 12:47:39 PM »

The first image is from the book but it does not explicitly show the TimeTool:

Exhibit 7–13 shows a crossed out imaginary trade in a light blue box (long and short the same thing). This reveals an embedded vertical and an embedded time spread.

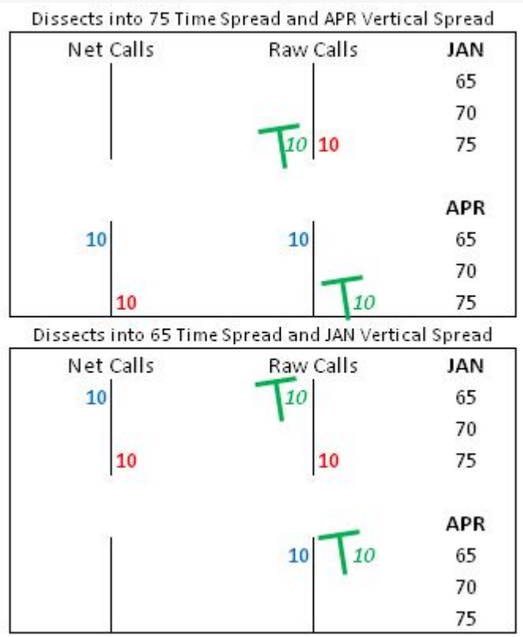
EXHIBIT 7–13

Call Diagonal Spreads Dissected into Verticals and Time Spreads (Two of the 16 Ways)



This APR/JAN 65/75 call diagonal can be the vertical in either month accompanied by a time spread at one or the other strikes. Either you have the April vertical with the 75 time spread or you have the January vertical with the 65 time spread.

Perhaps this second image will show how the TimeTool achieves the same result:



kubikconcepts

Can you please show an example of timetool

« **Reply #2 on:** September 14, 2008, 01:23:23 PM »

Thank you very much. This resolves my question.

BTW, are you planning to write any more books? I find your books amongst the best, so packed with information that no line can be missed. So far all your books are really original because there isn't any other book one can refer to on the topics you cover.

Ri$k Doctor

Can you please show an example of timetool

« **Reply #3 on:** September 17, 2008, 09:19:38 AM »

You're welcome.

Yes, writing.....trying to write.....my next book but these markets are keeping me busy with clients needing coaching through the turmoil.

emk662

how to choose the best vertical?

« **on:** August 12, 2008, 10:13:47 PM »

Can RiskDoctor tell us how to choose the best vertical spread on some high priced stocks?

I am looking bearish on BIDU, and guess it will probably go back to low 200s by October. Buying OTM put spread would be nice, but I don't want it to expire worthless in case I am wrong. How to select best vertical in this BIDU case?

Thanks.

Ri$k Doctor

how to choose the best vertical?

« **Reply #1 on:** August 17, 2008, 08:50:11 PM »

The second consideration for a vertical, after bullish or bearish, is "what is premium doing?" Meaning where is the current implied volatility in relation to its historic level? (See Excerpt from Chapter 5 of "Options Trading: The Hidden Reality" below.)

Currently, it is quite low:

An objective vertical player would choose a cheap out-of-the-money (OTM) vertical but which one and how wide? That would depend on the technical projection.

Having said that, there are traders who hate to buy (OTM) premium, at any price, where time works against them. There is not much vega risk with 10-point verticals but as you stretch out the strikes, it can grow quite large.

What is your price projection?

Excerpt from Chapter 5:

PREMIUM PERSPECTIVE

Suppose that someone is bullish, the stock is trading at 105, and he or she decides to buy a 10-point vertical call spread. The pricing in the market across all the strikes allows for a choice of buying any ATM, in any month for about 5.00 or one of several OTM options that are priced at a lesser value, or one of the ITM options that is valued higher. Which bull spread should it be? The investor also has to consider whether the option should be Long Premium (OTM), Short Premium (ITM) or Neutral Premium (ATM). As the underlying market moves, not only will the price of the vertical fluctuate, but so too will the premium stance change.

Limited Gain - Long Premium (OTM)
(Time working against the spread)

It is natural to consider the simple risk reward tendencies of vertical spreads. For example, if the investor pays 1.00 for an OTM vertical that can eventually go to 10.00, he or she can earn a lot more than he or she can lose. Looking at the right column in Exhibit 5??2, this may be represented by the 120c/130c spread. Paying 1.00 for something that can go to 10 is a ??risk 1.00 to make 9.00?? scenario. It seems as though there is not much time left for that to happen, but it is possible. In a memorable expiration, with a week to go in the YHOO (Yahoo) July 2000 expiration there were options that were priced similarly. Within 3 days YHOO went from under 100 to over 135. That may be too much of a long shot for someone expecting a smaller advance. A 10-point spread a bit closer to the money (right column??s 110c/120c) that is going for
about 2.00 which would be a ??risk 2 to make 8?? scenario may be more realistic. Judging from Exhibit 5??2 again, a ??risk 2 to make 8?? scenario may also be represented by the left column??s 120c/130c spread. In each of these speculations, the spreader would have to be aware of the fact that, until the bounce happens, time is working against the spread??s valuation. Also a decline of implied volatility would decrease all of the OTM spread values. That particular week Yahoo??s earnings were to be announced, and so anything could happen.

Limited Risk - Short Premium (ITM)
(Time working for the spread)

Not many option neophytes would often consider paying 7.00 for a call vertical spread that could only go to 10.00. That would ??risk 7 to make 3??. It would have similar pricing to the left column??s 70c/80c spread or the right column??s 90c/100c spread. If the stock rallies, it would profit. If it sits still, it would also win. If the stock declines but stays above the higher of the two strikes, it still wins. Obviously, it loses if the stock drops like a stone, but who is to say that it would not be liquidated on the way down to salvage a good portion of the cost? Suppose that it is sold at 5.00, when the underlying was trading half way between the two strikes. The ??7 to make 3?? scenario just changed into a
??risk 2 to make 2?? scenario. Perhaps the key to all of this is to bear one??s
thinking and regard the long call spread for 7.00 debit as a short put
spread at 3.00 credit. Of course this is risking 7 to make 3 here also, but
somehow the credit of 3.00 seems more appealing. Now, it is more intuitive to hope that the put spread goes worthless (the call spread maximizes), staying above the higher of the two strikes at expiration. Again, a rally, sitting still, or not dropping too much would all help in this scenario.
For stocks that seem to have a world of support at certain levels the long ITM debit spread or short OTM credit spread may make a lot of sense. In this case, one should avoid getting wrapped up in the idea that risk reward ratios need to be favorable. Having said that, in the last quarter of 2000 and early 2001, there did not seem to be much support even for stocks that appeared to have a world of support. Like everything else, timing is everything.

Temporarily Purely Directional - Neutral Premium (ATM)
(Time has not much effect at current stock price)

Suppose, for example, an opinion is bullish with no expectations of volatility one way or another. To buy any month??s ATM 10-pointer for about 5.00 would be a ??risk 5 to make 5?? scenario. Logically, one might think at first that it may be better to buy the further dated spread because of more time. Throw out the logic because more time left means that the bull spread will not maximize (also won??t minimize) in price as fast as a nearer term spread will. While the front month spread goes from 5.00 to 10.00 on the upside or to 0.00 on the downside the deferred month may have traveled only to 7.00 on the upside and 3.00 on the downside. The all important question is ??what is the appropriate time frame??

emk662

how to choose the best vertical?
« **Reply #2 on:** August 19, 2008, 04:28:14 AM »

For BIDU, I am looking it down to probably $260 level. Probably not as soon as in September, but it may reach that price level in December. Which month should I purchase the put now?

Risk Doctor, you mentioned cheap puts. I was wondering why you don't say put spreads instead.

Thanks.

Ri$k Doctor

how to choose the best vertical?
« **Reply #3 on:** August 19, 2008, 09:02:31 AM »

I used the term ??OTM Vertical?? in order to include OTM call spreads in the event of a bullish play, for someone.
I would go for DEC to meet with your time-frame. Also, in order to avoid erosion in an unchanged market, you could ***Buy*** the ATM put spreads (while BIDU is at $305.00) such as the 300/310 put spread for a 5ish debit or the 290/320 put spread for 15ish debit. This is, of course, synthetically the same as ***Selling*** the 300/310 call spread for 5ish credit or the 290/320 call spread for 15ish credit. As mentioned in the previous post's excerpt, these ATM spreads, although equal priced to the SEP and OCT ATM spreads, are also currently neutral with regard to theta and vega. Unfortunately, the DEC is also neutral gamma so in the event the move happens sooner, the spread will not profit as much as the shorter term verticals. The good thing is that you won??t loose as much either, on the upside, in the short term.

Ri$k Doctor

how to choose the best vertical?
« **Reply #4 on:** September 09, 2008, 04:52:36 AM »

Good Call:

Did you act?

emk662

how to choose the best vertical?
« **Reply #5 on:** September 09, 2008, 05:22:06 AM »

Unfortunately, I did not act. The 320/290 spread would be 15ish. I was willing to risk at most $500. So, I let this trade passing by. I was mainly looking at OTM put spread at that time. But it is OK.

Ri$k Doctor

how to choose the best vertical?
« **Reply #6 on:** September 09, 2008, 06:05:56 AM »

What a shame.

Next time rather than abandon the opportunity to manifest your opinion with a position, experiment with a tiny position. That is the best way to live and experience the process so necessary in your options endeavors.

tarttatin

A pretty low risk covered write

« **on:** September 02, 2008, 04:01:52 AM »

Greetings! A pretty low risk covered write opportunity presents itself in the options of Fannie Mae (FNM) and Freddie Mac (FRE). For FNM, the stock closed Friday at 6.84; the September 6 call is about 1.6 and the September 5 call is about 2.30. These prices provide downside protection of 5.24 and 4.54 respectively which are considerably good considering that the stock is trading near twenty year lows and pays a dicvidend. Upside if the stock remains at or above 6.84 would be a profit of .76 or .46 respectively or a return of 11.1% or 6.7%, in the three weeks to September expiration. Downside protection is virtually guaranteed by the Treasury. Fat call premiums; downside protection = a good choice for a covered call write. Similar values obtain for FRE. These are compelling trades. As a disclaimer, each trader must evaluate a trade based on their own research and their own risk reward objectives.

Ri$k Doctor

A pretty low risk covered write

« **Reply #1 on:** September 04, 2008, 02:43:00 PM »

QUOTE
Downside protection is virtually guaranteed by the Treasury.
Be careful of Guarantees by anyone. In the 80s, the US Government once Guaranteed a Floor in Soy Bean prices at $4.50 a bushel and the 4.50 puts were a half a cent. I bought a ton as the market cruised closer to the Guaranteed Floor. The Gov canceled the floor and my puts went to 25 cents. I loved that day.

Ri$k Doctor

A pretty low risk covered write

« **Reply #2 on:** September 08, 2008, 09:58:05 AM »

BREAKING News - Septmeber 8, 2008
Nationalization Of Freddie/Fannie
Don't Trust Guarantees:

FNM FANNIE MAE Easy to Borrow Delta Vega 5

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
.73 D	-6.31	.73 P	.7301 Q	10 x 53	431,765,397	1.91	2.05	.71

YIELD	PE	EPS	DIV	DIV.FREQ	DIV.DATE	52HIGH	52LOW	BETA	P/C RATIO	SHARES
27.40%	-.07	-10.43	.05	Q	8/14/08	68.60	3.53	2.015	1.335	1,069,816,0...

Ri$k Doctor
Ri$k Doctor

TRADE GRID SYMBOLS

OPTIONS Single Composite

CALLS DELTA	CALLS VEGA	CALLS BID X	CALLS ASK X	EXP	STRIKE	PUTS BID X	PUTS ASK X	PUTS DELTA	PUTS VEGA
SEP 08 (11) 100									215.59%
.26	.00	.05 I	.10 I	SEP 08	2.5	1.80 N	1.85 X	-.79	.00
.12	.00	0 Q	.05 C	SEP 08	3	2.20 C	2.35 C	-.99	.00
.11	.00	0 B	.05 C	SEP 08	4	3.20 C	3.40 C	-.88	.00
.11	.00	0 B	.05 C	SEP 08	5	4.20 C	4.30 I	-1.00	.03
.10	.00	0 B	.05 C	SEP 08	6	5.20 C	5.40 C	-.88	.00
OCT 08 (39) 100									284.83%
.35	.00	.10 I	.15 I	OCT 08	2.5	1.75 I	1.90 I	-.81	.00
.25	.00	.05 C	.10 C	OCT 08	3	2.20 C	2.40 C	-.88	.00
.24	.00	.05 C	.10 C	OCT 08	4	3.20 C	3.40 C	-.89	.00
.11	.00	0 N	.05 C	OCT 08	5	4.30 Q	4.40 C	-.76	.00
.10	.00	0 Q	.05 C	OCT 08	6	5.20 C	5.40 C	-.89	.00

FRE Freddie Mac Easy to Borrow Delta Vega 5

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
.73 D	-4.37	.722 Q	.73 C	108 x 362	302,035,176	2.50	3.60	.72

YIELD	PE	EPS	DIV	DIV.FREQ	DIV.DATE	52HIGH	52LOW	BETA	P/C RATIO	SHARES
136.99%	-.2092	-3.49	.25	Q	6/12/08	65.88	2.26	2.041	0.671	647,015,000

TRADE GRID SYMBOLS

OPTIONS Single Composite

CALLS DELTA	CALLS VEGA	CALLS BID X	CALLS ASK X	EXP	STRIKE	PUTS BID X	PUTS ASK X	PUTS DELTA	PUTS VEGA
SEP 08 (11) 100									217.09%
.24	.00	.05 C	.10 C	SEP 08	3	2.25 C	2.35 C	-.96	.00
.11	.00	0 B	.05 C	SEP 08	4	3.20 C	3.30 C	-1.00	.29
.11	.00	0 Q	.05 C	SEP 08	5	4.20 C	4.40 C	-.96	.00
.11	.00	0 B	.05 C	SEP 08	6	5.20 C	5.40 C	-.96	.00
.09	.00	0 B	.05 C	SEP 08	7	6.20 C	6.40 C	-.96	.00
OCT 08 (39) 100									182.69%
.33	.00	.10 C	.15 C	OCT 08	3	2.25 C	2.35 C	-.86	.00
.23	.00	.05 C	.10 C	OCT 08	4	3.20 C	3.40 C	-1.00	.93
.10	.00	0 Q	.05 I	OCT 08	5	4.20 C	4.40 C	-1.00	.91
.10	.00	0 Q	.05 C	OCT 08	6	5.20 C	5.40 C	-1.00	.89
.09	.00	0 N	.05 C	OCT 08	7.5	6.70 C	6.90 C	-.86	.00

So who wants to share their horror story?

tarttatin

A pretty low risk covered write

« **Reply #3 on:** September 08, 2008, 03:39:50 PM »

Well the sequence of events was dramatic and illustrates the importance of not putting all your eggs in one basket. I'm long the stock and short the September 10 calls (which will obviously expire worthless) ....but fortunately I had also purchased the December 15 puts. That saved me! I plan to jump back into the fray tomorrow!

A pretty low risk covered write

« **Reply #4 on:** September 08, 2008, 03:55:55 PM »

Your position was a synthetically Bear Diagonal Spread which should have made money if put on all about the same time. I had short deltas and wanted what happened to happen. The question is, did you know that that is what the position wanted?

tarttatin

A pretty low risk vertical
« **on:** July 14, 2008, 06:45:29 AM »

Greetings! To those of you who've been following the dramatic swings in the price of Fannie mae (FNM) and Freddie mac (FRE) this past week, both lost roughly half their market value last week and are down substantially for the year. this weekend the Treasury and the Fed stepped in a with a rescue plan designed to shore up investor confidence. I believe FRE is selling some bonds this week. In effect government action has in effect placed a floor on the value of these stocks. I believe the FRE vertical put spread for July, selling the July 6 and buying the July 4 for a net credit of 0.30 and selling the FNM July 7.5 buying the 2.5 puts for a net credit of 0.5 looks very attractive. As always, please do your own homework and form your own independent opinion before placing any trades.... tart tatin

Ri$k Doctor

A pretty low risk vertical
« **Reply #1 on:** July 14, 2008, 12:26:38 PM »

No free money out there. Normally, I prefer to have positive theta credit spreads and usually, only when the trend is my friend. Trying to pick bottoms in FRE and FNM, while risking a lot to make a little, is like trying to catch falling knives. If you trust the FED's judgment and actions then even though IV is High, buying an AUG OTM vertical, risking less to make more) makes more sense to me in this unusual circumstance, where the market forces can show a lack of confidence in the FED's actions.

Ri$k Doctor

A pretty low risk vertical
« **Reply #2 on:** July 15, 2008, 12:53:34 PM »

tarttatin: Staying with it?

FRE July 15th:

FRE — Freddie Mac — Easy to Borrow — Delta — Vega — 9

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
5.26 N	-1.85	5.32 P	5.33 P	1 x 4	221,953,723	5.86	6.34	4.68

TRADE GRID — SYMBOLS

OPTIONS — Single — Composite

CALLS DELTA	VEGA	BID X	ASK X	EXP	STRIKE	PUTS BID X	ASK X	DELTA	VEGA
JUL 08 (3) 100									425.08%
.88	.00	2.30 C	2.50 C	JUL 08	3	.05 C	.15 C	-.07	.00
.79	.00	1.55 C	1.70 C	JUL 08	4	.30 C	.35 X	-.19	.00
.63	.00	.90 C	1.05 C	JUL 08	5	.65 C	.70 I	-.36	.00
.45	.00	.55 C	.60 C	JUL 08	6	1.20 C	1.35 C	-.54	.00
.33	.00	.25 C	.55 C	JUL 08	7	1.55 C	2.10 C	-.80	.00
.23	.00	.20 C	.25 I	JUL 08	7.5	2.35 C	2.55 C	-.75	.00
.14	.00	.10 I	.15 C	JUL 08	9	3.70 C	3.90 C	-.87	.00
.09	.00	.05 C	.10 C	JUL 08	10	4.70 C	4.80 B	-.92	.00
.04	.00	0 X	.05 X	JUL 08	11	4.60 X	6.70 X	-1.00	.09
AUG 08 (31) 100									283.37%
.81	.00	3.00 B	3.20 C	AUG 08	3	.70 I	.80 C	-.14	.00
.76	.00	2.40 I	2.90 C	AUG 08	4	1.10 C	1.25 C	-.22	.00
.68	.01	1.95 X	2.05 C	AUG 08	5	1.70 X	1.80 C	-.29	.01
.61	.01	1.55 X	1.65 C	AUG 08	6	2.30 X	2.40 C	-.38	.01
.53	.01	1.20 I	1.35 C	AUG 08	7	2.85 C	3.10 C	-.46	.01
.46	.01	.95 C	1.05 C	AUG 08	8	3.50 C	3.80 C	-.55	.01
.39	.01	.75 C	.85 C	AUG 08	9	4.30 C	4.60 C	-.62	.01
.34	.01	.60 C	.70 C	AUG 08	10	5.30 N	5.50 C	-.65	.01
.29	.01	.50 I	.55 C	AUG 08	11	6.00 C	6.30 C	-.74	.00

FNM July 15th:

FNM — FANNIE MAE — Easy to Borrow — Delta — Vega — 9

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
7.07 Q	-2.66	7.05 Q	7.10 Q	1 x 153	199,731,687	8.54	8.56	6.82

TRADE GRID — SYMBOLS

OPTIONS — Single — Composite

CALLS DELTA	VEGA	BID X	ASK X	EXP	STRIKE	PUTS BID X	ASK X	DELTA	VEGA
JUL 08 (3) 100									472.42%
.86	.00	4.40 I	4.80 I	JUL 08	2.5	0 A	.10 I	-.02	.00
.82	.00	2.25 X	2.50 B	JUL 08	5	.35 C	.40 I	-.17	.00
.48	.00	.65 I	.75 I	JUL 08	7.5	1.20 X	1.25 I	-.50	.00
.27	.00	.30 I	.35 C	JUL 08	9	2.15 N	2.35 C	-.74	.00
.17	.00	.15 I	.20 I	JUL 08	10	3.00 I	3.10 I	-.88	.00
.12	.00	.10 C	.15 X	JUL 08	11	4.00 I	4.20 C	-.86	.00
.10	.00	.05 I	.15 X	JUL 08	12	5.00 I	5.20 C	-.87	.00
.07	.00	.05 I	.10 C	JUL 08	13	5.90 I	6.10 C	-.95	.00
.03	.00	0 B	.05 I	JUL 08	14	6.50 C	7.10 C	-1.00	.28
AUG 08 (31) 100									321.04%
.84	.00	4.70 X	5.60 I	AUG 08	2.5	.45 X	.55 I	-.07	.00
.76	.01	3.00 C	3.40 C	AUG 08	5	1.15 C	1.30 I	-.21	.01
.70	.01	2.40 X	2.75 C	AUG 08	6	1.65 I	1.70 C	-.27	.01
.59	.01	1.70 I	1.95 I	AUG 08	7.5	2.30 I	2.35 I	-.40	.01
.48	.01	1.15 C	1.45 C	AUG 08	9	3.30 X	3.50 C	-.50	.01
.41	.01	1.00 X	1.05 C	AUG 08	10	3.90 C	4.20 C	-.58	.01
.35	.01	.75 I	.90 C	AUG 08	11	4.30 C	5.00 C	-.70	.01
.29	.01	.55 X	.70 C	AUG 08	12	5.10 C	5.80 N	-.78	.01
.25	.01	.45 I	.60 C	AUG 08	13	5.90 C	6.70 X	-.85	.00

tarttatin

A pretty low risk vertical

« **Reply #3 on:** July 15, 2008, 05:58:54 PM »

thank you very much Charles for your kind and thoughtful comments. I haven't yet put on a trade but I believe there is opportunity here and I will study your comments more before going forward. The current environment reminds me of 1976 when Geico plunged from the sixties to 2.5 where a chunk was purchased by Warren Buffett in one of his best long term investments. He bought another chunk in 1979 and the following years saw the stock run up about a hundred and fifty times before he bought the entire company in the mid-nineties. One of his oft-repeated phrases "be fearful when others are greedy, be greedy when others are fearful". The fear in Fannie and Freddie is that they will possibly be nationalized, diluting shareholders stake. On a related note, right now JPM (JP Morgan Chase) was plunged to 31! That's p/e of 8 and a dividend yield of almost 5%! (which is probably better than you can earn from their CDs! There seem to be some good opportunities in the financials right now and I'll be more careful recommending option plays; though I am sure they are there.... thanks again!

tarttatin

A pretty low risk vertical

« **Reply #4 on:** July 16, 2008, 02:13:39 PM »

"What a difference a day made
Twenty-four little hours
Brought the sun and the flowers
Where there used to be rain"

Ri$k Doctor

A pretty low risk vertical

« **Reply #5 on:** September 08, 2008, 09:59:55 AM »

BREAKING News - Septmeber 8, 2008
Nationalization Of Freddie/Fannie
Don't Trust Guarantees:

FNM FANNIE MAE — Easy to Borrow — Delta — Vega — 5

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
.73 D	-6.31	.73 P	.7301 Q	10 x 53	431,765,397	1.91	2.05	.71

YIELD	PE	EPS	DIV	DIV.FREQ	DIV.DATE	52HIGH	52LOW	BETA	P/C RATIO	SHARES
27.40%	-.07	-10.43	.05	Q	8/14/08	68.60	3.53	2.015	1.335	1,069,816,0...

TRADE GRID — SYMBOLS

OPTIONS — Single — Composite

CALLS DELTA	CALLS VEGA	CALLS BID X	CALLS ASK X	EXP	STRIKE	PUTS BID X	PUTS ASK X	PUTS DELTA	PUTS VEGA
SEP 08 (11) 100									215.59%
.26	.00	.05 I	.10 I	SEP 08	2.5	1.80 N	1.85 X	-.79	.00
.12	.00	0 Q	.05 C	SEP 08	3	2.20 C	2.35 C	-.99	.00
.11	.00	0 B	.05 C	SEP 08	4	3.20 C	3.40 C	-.88	.00
.11	.00	0 B	.05 C	SEP 08	5	4.20 C	4.30 I	-1.00	.03
.10	.00	0 B	.05 C	SEP 08	6	5.20 C	5.40 C	-.88	.00
OCT 08 (39) 100									26
.35	.00	.10 I	.15 I	OCT 08	2.5	1.75 I	1.90 I	-.81	.00
.25	.00	.05 C	.10 C	OCT 08	3	2.20 C	2.40 C	-.88	.00
.24	.00	.05 C	.10 C	OCT 08	4	3.20 C	3.40 C	-.89	.00
.11	.00	0 N	.05 C	OCT 08	5	4.30 Q	4.40 C	-.76	.00
.10	.00	0 Q	.05 C	OCT 08	6	5.20 C	5.40 C	-.89	.00

FRE Freddie Mac — Easy to Borrow — Delta — Vega — 5

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
.73 D	-4.37	.722 Q	.73 C	108 x 362	302,035,176	2.50	3.60	.72

YIELD	PE	EPS	DIV	DIV.FREQ	DIV.DATE	52HIGH	52LOW	BETA	P/C RATIO	SHARES
136.99%	-.2092	-3.49	.25	Q	6/12/08	65.88	2.26	2.041	0.671	647,015,000

TRADE GRID — SYMBOLS

OPTIONS — Single — Composite

CALLS DELTA	CALLS VEGA	CALLS BID X	CALLS ASK X	EXP	STRIKE	PUTS BID X	PUTS ASK X	PUTS DELTA	PUTS VEGA
SEP 08 (11) 100									217.09%
.24	.00	.05 C	.10 C	SEP 08	3	2.25 C	2.35 C	-.96	.00
.11	.00	0 B	.05 C	SEP 08	4	3.20 C	3.30 C	-1.00	.29
.11	.00	0 Q	.05 C	SEP 08	5	4.20 C	4.40 C	-.96	.00
.11	.00	0 B	.05 C	SEP 08	6	5.20 C	5.40 C	-.96	.00
.09	.00	0 B	.05 C	SEP 08	7	6.20 C	6.40 C	-.96	.00
OCT 08 (39) 100									182.69%
.33	.00	.10 C	.15 C	OCT 08	3	2.25 C	2.35 C	-.86	.00
.23	.00	.05 C	.10 C	OCT 08	4	3.20 C	3.40 C	-1.00	.93
.10	.00	0 Q	.05 I	OCT 08	5	4.20 C	4.40 C	-1.00	.91
.10	.00	0 Q	.05 C	OCT 08	6	5.20 C	5.40 C	-1.00	.89
.09	.00	0 N	.05 C	OCT 08	7.5	6.70 C	6.90 C	-.86	.00

So who wants to share their horror story?

gelfand

backtesting option strategies
« **on:** August 29, 2008, 10:15:33 AM »

I would like to test a systematic, passive strategy such as

sell 1-month ATM straddle on the SPX
buy 2% OTM call and put for protection
hold until expiration

on historical data. Is there software that can do this, incorporating bid-ask spreads and computing P&L based on initial credit and final debit?

OptionMechanic

backtesting option strategies
« **Reply #1 on:** August 29, 2008, 04:33:10 PM »

thinkorswim, OptionVue & Optionetics Platinum. OptionsXpress & E-Trade have historical data but I don't know if their software carries the P/L values to Expiration. -Back-Testing-
The CBOE has historical data on .csv downloadable format.
I'll think TradeStation & eSignal options platforms should have options back-testing capabilities as well.

I hope this helps.

leonidt

Risk free trade?

« **on:** July 29, 2008, 06:19:36 PM »

Hello,
I just came across the following situation in a market. BAC trades at 32.22. August 30 call 3.40, 30 put 1.39. Compare k+c = 33.40 s+p=33.61. If I have enough cash to covered short position than my interest payment is 0. Does this mean I can make .21 on this combination before commission or am I missing something?
Thanks

Ri$k Doctor

Risk free trade?

« **Reply #1 on:** July 30, 2008, 04:31:03 PM »

Seems so but I have not researched what the impact might be of the other goofy options listed under BAC:

BAC — Bank of America Corp. — Easy to Borrow — Open Interest — Size (Bid x Ask) — 6

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
33.61 N	+1.39	33.40 Q	33.54 Q	29 x 22	119,475,303	33.38	34.50	31.99

YIELD	PE	EPS	DIV	DIV.FREQ	DIV.DATE	52HIGH	52LOW	BETA	P/C RATIO	SHARES
7.62%	18.57	1.81	.64	Q	9/3/08	52.96	18.44	.868	1.006	4,452,947,...

TRADE GRID — SYMBOLS

OPTIONS — Single — Composite

CALLS OPEN.INT	CALLS SIZE	CALLS BID X	CALLS ASK X	EXP	STRIKE	PUTS BID X	PUTS ASK X	PUTS OPEN.INT	PUTS SIZE
AUG 08 (16) 18/100 (US$ 5.57)									96.17%
948	10 x 85	2.13 N	2.17 N	AUG 08	4	.02 N	.05 N	588	10 x 10
1,015	10 x 10	1.20 N	1.23 N	AUG 08	5	.09 C	.11 N	514	50 x 10
805	10 x 10	.44 N	.47 N	AUG 08	6	.32 N	.35 N	1,151	10 x 10
5	10 x 10	.07 N	.09 N	AUG 08	7	.94 N	.98 N	138	10 x 10
0	0 x 10	0 X	.02 N	AUG 08	8	1.85 N	2.01 N	98	86 x 10
50	0 x 10	0 X	.01 N	AUG 08	9	2.83 N	3.05 C	42	86 x 146
AUG 08 (16) 100									89.53%
69,072	31 x 87	6.60 C	6.75 I	AUG 08	27.5	.50 I	.55 I	93,111	46 x 97
52,217	218 x 5	4.50 C	4.60 C	AUG 08	30	.92 B	.96 I	77,264	11 x 11
49,282	171 x 21	2.74 C	2.85 C	AUG 08	32.5	1.65 I	1.68 C	41,192	9 x 31
73,625	31 x 22	1.44 I	1.50 X	AUG 08	35	2.79 N	2.88 C	51,507	61 x 58
37,573	59 x 11	.61 I	.65 N	AUG 08	37.5	4.40 I	4.55 N	2,292	279 x 44
24,477	49 x 20	.19 I	.21 X	AUG 08	40	6.50 X	6.60 C	5,588	51 x 20

May be a lot of fine print. Be careful.

leonidt

Risk free trade?

« **Reply #2 on:** July 30, 2008, 06:23:41 PM »

Thank you

CoachPhil

GOOG example in book
« **on:** February 04, 2006, 08:50:06 PM »

Charles:

Pouring over the wingspread chapter in the book (second time through) and you have the beginning of a GOOG Fly trade where you sold one of the baby FLYs embedded inside. You then referenced that the full description of the adjustments to the GOOG position were located on a site somewhere I cannot find it. It is in the WINGSREADS chapter.

The other question is if one can put on a long wide strike FLY with 4 or 5 weeks to expiration and simply sell the baby FLYs as market conditions warrant and mine profits from giving up the babies in pieces as expiration approaches instead of just sitting on the FLY itself? (of course some cooperation and swings in the underlying would be needed)

Book is great, congrats!

CPhil

CoachPhil

GOOG example in book
« **Reply #1 on:** February 04, 2006, 09:01:40 PM »

Never mind, lol, I found it in the Diamonetrics section of the forums here...

I am gonna see if I can follow it although I think I am looking over the shoulder of your conversation with someone else.

Cphil

Ri$k Doctor

GOOG example in book
« **Reply #2 on:** February 06, 2006, 06:04:07 PM »

Few! Hate Typos! Don't You? BTW: Thanks for your book, "The Options Handbook", it is an enjoyable read.
Miracle In August GOOG

CoachPhil

GOOG example in book
« **Reply #3 on:** February 06, 2006, 08:18:14 PM »

Charles:

Thanks. I think your book takes mine to the next level! I am already starting to trade differently as you can see from the ISRG combo to FLY adjustment post I made here and then searching for the embedded baby flies. I have to admit in Tampa the baby flies things was not sinking in for some reason but when I read the book it was clear as day.

Based on that, can one open a wide strike fly and then play off the market fluctuations by selling off the baby flies a little at a time? I think this is what you were getting at in the GOOG example in the Wingspreads chapter. Of course you can also add boxes or take out boxes, etc...

Phil

Ri$k Doctor

GOOG example in book
« **Reply #4 on:** February 07, 2006, 09:21:39 AM »

Exactly but the flies have to reach a price level that is attractive. The level of attraction is different for all traders at any given time.

CoachPhil

GOOG example in book
« **Reply #5 on:** February 07, 2006, 10:23:32 AM »

> **Quote** (Ri$k Doctor @ Feb. 07 2006,13:21)
> Exactly but the flies have to reach a price level that is attractive. The level of attraction is different for all traders at any given time.

Yes I should have added that if the stock is at a strike and the baby fly is at a price that is one that I would not enter a FLY at that strike now or would take the profit on it if one was entered previously, not expecting the stock to stay in the baby range.

Ri$k Doctor

GOOG example in book
« **Reply #6 on:** February 07, 2006, 11:37:22 AM »

As we say in England; "Roight!"

OptionJedi

GOOG example in book
« **Reply #7 on:** June 01, 2008, 06:33:53 AM »

Hi Charles,
I'm trying to find that post, but it seems to be in the protected section of the Diamonetrics forum. I find that a little odd since the book says to go the website for detail of riding the GOOG butterfly and when I go to the website, it asks me for a password I don't have.

Please advise.

Thanks.

Ri$k Doctor

GOOG example in book
« **Reply #8 on:** June 01, 2008, 08:44:42 AM »

Miracle In August GOOG

OptionJedi

GOOG example in book
« **Reply #9 on:** June 01, 2008, 09:09:31 AM »

Charles,
Thanks for the quick reply!

Now I can continue figuring this out!

OptionJedi

GOOG example in book
« **Reply #10 on:** June 01, 2008, 12:26:36 PM »

RD,
This was a great example of being "right" and how you used "butterfly consciousness" and incrementally took money off the table with baby butterfly's (and a few other spreads).

What if GOOG didn't follow the diamonetric grid prediction? When would you have decided to bail or adjust (what might be possible adjustments?) if GOOG had continued to trend up or trend down a little and then reversed?

Thanks in advance.

Ri$k Doctor

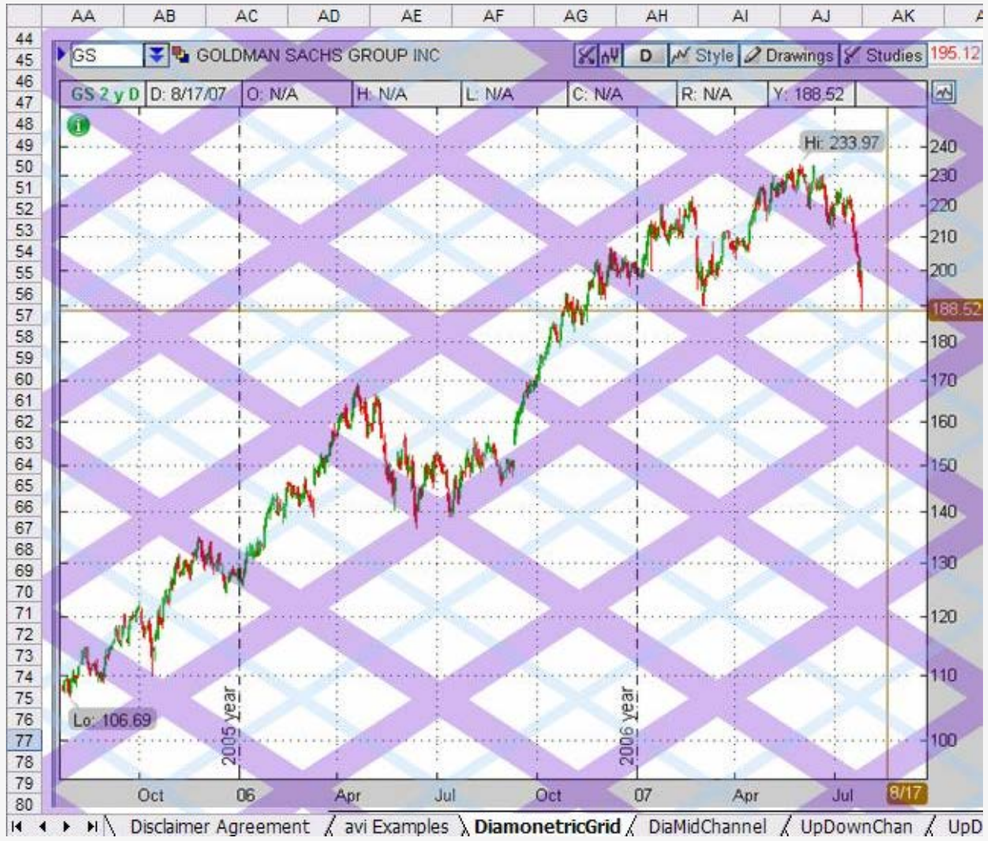
GOOG example in book

« **Reply #11 on:** June 10, 2008, 10:30:05 AM »

The following is an example of when it does not go as planned. The first link is to the DC Highlights where we selected a bunch of trades meeting certain criteria. Follow the Goldman Sachs (GS) discussion in the **RD DC Blend Highlights** and then I have pasted in a bit more on what we did for GS.

OptionMechanic:

(--Ri$k Doctor @ July 26 2007,2:41)
QUOTE
Yes, GS got ugly fast and we took a smaller loss (see above). Here you can see that there was a decisive break from the primary uptrend. We were lucky to catch it when it was doing that at about 199:



QUOTE
We were lucky to catch it when it was doing that at about 199:

...A lot more than luck, we witness a Master applying his Craft.

RiskDoctor:
Rules is Rules!

ajna

GOOG example in book

« **Reply #12 on:** June 12, 2008, 02:59:58 PM »

Charles,
In the GS example you exited by legging out. First by closing 10 short 200 Puts then later in the day closing out the remaining backspread. How did you decide to close out that number of puts first and then the rest later? Meaning, did you suddenly change to a short delta bias for the rest of the day and that's how you decided on 10 contracts first, or was there some other sort of method.

Also, I noticed you left yourself with 3 short 200 puts, albeit for 9 minutes. It makes me recall your admonition of your pupil in your book who took on unlimited risk.

st

Ri$k Doctor

GOOG example in book

« **Reply #13 on:** June 12, 2008, 03:29:27 PM »

Yes, because GS had broken down, I had a short bias. Legging the short, at that point was very small and there was no question that it was going to be covered within a few minutes.

You are correct. I discourage novices and 'long stock only' type investors from developing the bad habit of having unlimited risk because it can be difficult for them to handle and to pull the trigger when needed. That stubborness can lead to serious losses. If you know yourself and have day-traded futures and have traded short stock then you can handle a few naked short options. Short OTMs in size that can grow against you exponentially is a different story.

SilverLion

Read the book
« **on:** June 08, 2008, 12:55:29 PM »

I've just received OTTHR . WOW! Should I read the book straight through without trying to figure it out OR should I try to figure it out as I go? This is obviously going to take more than one reading. How should I approach this?

Ri$k Doctor

Read the book
« **Reply #1 on:** June 10, 2008, 10:06:29 AM »

Here is the link to the Book's Suggested Reading Assignment.

WIblount

modeling strategies in excel
« **on:** May 18, 2008, 05:55:05 PM »

As I begin to learn about some of the strategies in the book, does anyone have any suggestions on how to model a combination of position P&Ls, Greeks, etc. for a 60-90 day period over multiple market scenarios to look at how the position/strategy would perform?

It would be pretty easy to set up a spread sheet with a pricing formula to price the various options at different price levels and to net out the combinations of positions and chart them over time. Does anyone know of a way to generate random price series based on maybe 6 or 8 different scenarios (ie. flat market / flat IV, rising market / rising IV, rising then declining market with IV doing the same, declining market / flat IV and so forth)?

Maybe skew would be another factor in generating a price series over different strikes although that may be getting more complicated. I am sure that over time, position and Greek behavior will become second nature but until then it would be nice to see how some of these position/strategies and Greeks would perform with simulated prices. Any suggestions on how many and what scenarios to model would also be appreciated. I think if I had a way to generate the price series, I could do everything else. It is easy to look at a position with a certain underlying price and IV at a certain point in time but I think it would be very helpful in committing these strategies to second nature to look at how they perform over a time series with varying scenarios.

Ri$k Doctor

modeling strategies in excel
« **Reply #1 on:** May 19, 2008, 06:52:39 AM »

Trading and Investment Tools by Peter Hoadley are Free software tools for option price calculation using the Black-Scholes and binomial models, the analysis of trading strategies using payoff diagrams, ...

www.hoadley.net/options/options.htm

WIblount

modeling strategies in excel
« **Reply #2 on:** May 19, 2008, 07:19:40 AM »

I use the Excel functions from Hoadley to calculate IV theoretical prices, Greeks etc. Some of his canned spreadsheets are good for some things but do not really handle options on futures without an eSignal account. What I was really looking for was a way to generate a series of random underlying prices and IV based on parameters that I set. (eg. sharp up-trend/ up IV, flat direction and IV, etc.) and then calculating theoretical option prices to see how various strategies and combinations would behave over say a 60 or 90 day period. I think looking at a butterfly or a slingshot like this would make the characteristics second nature after awhile.

Ri$k Doctor

modeling strategies in excel
« **Reply #3 on:** May 19, 2008, 07:31:17 AM »

Why don't you consider downloading thinkorswim's free paperMoney?

www.thinkorswim.com

naturalogarithm

modeling strategies in excel
« **Reply #4 on:** May 19, 2008, 08:08:02 AM »

I thought Hoadley had a Monte Carlo function that allowed for different scenarios

Ri$k Doctor

modeling strategies in excel
« **Reply #5 on:** May 19, 2008, 08:12:02 AM »

Sorry but I would not know. I do not use Hoadley.

WIblount

modeling strategies in excel
« **Reply #6 on:** May 19, 2008, 11:26:46 AM »

the hoadley montecarlo function is actually a call from within VBA and not a function. It generates random prices from a normal distribution and dumps them into a frequency table for visual representation. i don't know enough about vba code to change this routine to generate a time series of prices. It would also be nice to guide the direction of the prices to simulate an increasing market or a derceasing market and change the sd midstream to simulate higer and lower vol.

naturalogarithm

modeling strategies in excel
« **Reply #7 on:** May 19, 2008, 12:05:14 PM »

If you're interested in learning about VBA and its uses in finance, I recommend this book.

WIblount

modeling strategies in excel
« **Reply #8 on:** May 19, 2008, 05:31:08 PM »

Thanks... when I saw the book I realized that I have it. I think I can find something there to adapt for my purposes.

namanh

modeling strategies in excel
« **Reply #9 on:** May 20, 2008, 05:41:43 AM »

QUOTE
wlbsr,May 19 2008,9:31
Thanks... when I saw the book I realized that I have it. I think I can find something there to adapt for my purposes.

What you're trying to do is an area of quantitative finance research. To model varying IV and skew you need to use a stochastic vol model, to simulate range and breakouts you need jump diffusion etc. I'm not sure that all of this can be done in an Excel sheet.

I myself use C++. A good starting point is J. London 'modeling derivatives in C++'

Good luck
N.A.