		Slingshot adjustments	iqsee			November 26, 2007, 08:50:00 AM by Ri$k Doctor
		Hedging SPX Options with VIX Options	beny12			October 21, 2007, 05:02:17 PM by Ri$k Doctor
		Relative Option Pricing	visitor			October 14, 2007, 11:19:23 AM by Ri$k Doctor
		box and dividends	pjs			October 01, 2007, 06:36:21 PM by Ri$k Doctor
		Boxing off an ITM condor	jtbirk			October 01, 2007, 06:34:45 PM by Ri$k Doctor
		Broken Wing Butterfly	ezmoney			September 04, 2007, 07:12:30 AM by Ri$k Doctor
		Help dissecting a call condor	jtbirk			August 31, 2007, 08:55:40 AM by jtbirk
		Need to sell a large stock position, with a bang!	lewisbrown			August 20, 2007, 10:13:49 PM by Ri$k Doctor
		GOOG EARNINGS PLAY	Precision Investing			July 27, 2007, 07:43:29 PM by Precision Investing
		ITM Verticals	Maui trader			July 19, 2007, 09:14:49 AM by Ri$k Doctor
		Rolling for Credits	James Parker			July 04, 2007, 08:36:37 PM by Ri$k Doctor
		How to adjust a Slingshot Bear call spread?	fh2000			March 08, 2007, 02:45:33 PM by Ri$k Doctor
		Is Financial Freedom Really Possible?	Luthervickie			March 01, 2007, 04:46:25 PM by Ri$k Doctor
		Ratio Spreads	hlp			February 28, 2007, 07:35:33 AM by Ri$k Doctor
		New AAPL trade	bb35360			February 25, 2007, 01:17:19 PM by Ri$k Doctor
		DO, reverse conversion confusion	newboyo			February 14, 2007, 06:23:28 PM by Ri$k Doctor
		Early Assinment Situation	Ri$k Doctor			February 08, 2007, 03:17:12 PM by Ri$k Doctor
		DH Collar	arp			February 08, 2007, 09:27:22 AM by Ri$k Doctor
		Diag - Sears Holding	murmeister			February 08, 2007, 08:56:30 AM by Ri$k Doctor
		AAPL Time spread	rachalupa			January 19, 2007, 10:28:00 AM by Ri$k Doctor

iqsee

Slingshot adjustments

« **on:** November 13, 2007, 11:28:59 AM »

I have been using the slingshot strategy for some time with AAPL. I will try to summarize the trades as best as I can remember.
Bought 300 shares of AAPL @ 170
Bought 3 Nov 155 puts
Sold 6 Bear credit call spreads Nov 175/180

The position was initiated so that the net outlay of the options was for a small credit

AAPL moved to 188 and I rolled the Nov 180 call to Nov 185 call and took some money off the table.
I also rolled the put to Nov165 and then to Nov 180 in steps for debits.
Sold 6 call spreads Nov 195/200 to bring in some credit and establish a higher slingshot in the same month.

Could you please help me dissect this position and what would happen if I did the following:

Bought back the Nov 185 call: now I have a butterfly at 180/195/200 with kickers at 200 but what about the -2 x 175/+1x 180 call ratio. Isn't that posing increasing risk to the upside and should it be closed if the 185 call is bought back.

What does rolling the Nov 155 put up to Nov 180 put do to the original 155/175/180 butterfly.

In hindsight the 175/180 call ratio would have become profitable since AAPL fell below it when the market crashed but what would have been appropriate if I was still bullish on AAPL. I understand that you mention leaving the butterfly alone since it could blossom in the future and since it is at its max loss anyways. Should I leave the Nov 185 call alone and maintain the butterfly? I just wanted to take some money off the table by buying back the call. I would appreciate your comments.

Ri$k Doctor

Slingshot adjustments

« **Reply #1 on:** November 15, 2007, 06:09:13 AM »

QUOTE
Bought 300 shares of AAPL @ 170
Bought 3 Nov 155 puts
Sold 6 Bear credit call spreads Nov 175/180

Dissection 1:

	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	T	V	X
11		3	Raw Calls	Total Net Contracts			Raw Puts									3	C P	
12																		
13				PivotK	165											PivotK	165	
14				Month	NOV	3			Inc Adj	Y						NOV		
15	Raw Position											Butterfly Dissector					Work Sheet	
16	nC	rC	Adj	Cur	K	Cur	Adj	rP	nP	K		Bfly1	Bfly2	Bfly3	K	C	K	P
35					150					150					150		150	
36					155	3		3	3	155					155		155	
37					160					160	3	3			160		160	
38	3				165				(3)	165	6	6			165	3	165	
39					170					170	6	6			170		170	
40	(6)	(6)		(6)	175					175	6	6			175		175	
41	6	6		6	180					180					180		180	
42					185					185					185		185	
43					190					190					190		190	
44					195					195					195		195	
45					200					200					200		200	
59	3	3		3	Net					Net	21	21			Net	3	Net	

QUOTE
I rolled the Nov 180 call to Nov 185 call and ... also rolled the put to Nov165 ...

You can see from the dissection that the natural calls to roll up were the ***synthetic*** 165 calls (Row 37 Column T), to the ***synthetic*** 180s (Row 41 Column T)**.**

Dissection 2:

	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	T	V	X
13				PivotK	165											PivotK	165	
14				Month	NOV	3			Inc Adj	Y						NOV		
15	Raw Position											Butterfly Dissector					Work Sheet	
16	nC	rC	Adj	Cur	K	Cur	Adj	rP	nP	K		Bfly1	Bfly2	Bfly3	K	C	K	P
35					150					150					150		150	
36					155	3	(3)			155					155		155	
37					160					160					160		160	
38	3				165		3	3		165					165		165	
39					170					170	3	3			170		170	
40	(6)	(6)		(6)	175					175	6	6			175		175	
41	3	3	(3)	6	180					180	3	3			180	3	180	
42	3	3	3		185					185					185		185	
43					190					190					190		190	
44					195					195					195		195	
45					200					200					200		200	
59	3	3		3	Net					Net	12	12			Net	3	Net	

QUOTE
...then [rolled] to Nov 180 [puts] in steps for debits.
Sold 6 call spreads Nov 195/200...

Here is where I get confused: I see that the puts are rolled up but when you sold the 195/200 call spread, did you also buy back the 175/185 call spread or leave it?

iqsee

Slingshot adjustments

« **Reply #2 on:** November 16, 2007, 06:40:00 PM »

Thank you for the dissection. To address your questions: I rolled the puts twice. First I rolled them to 165 Nov and a few days later rolled the 165 Novs to 180 Nov. I did established a 195/200 credit spread at the same time as the put roll. The next step is the questionable one: should I close the 175/180 ratio spread or leave it on. I actually closed it. What do you think about that? I am trying to understand what happened to the original 155/175/180 butter after the put roll.

When you describe rolling the call for locking in profits are you referring to the synthetic call ie. 155 call or the kicker ie the 180 call. This issue has me confused. If you roll the synthetic 155 call then you can only do it by rolling up the put which will be for a debit. So how do you lock in profits with the call roll? Will greatly appreciate your response.

iqsee

Slingshot adjustments

« **Reply #3 on:** November 17, 2007, 12:03:56 PM »

I apologize for this additional post but I realize that my explanation may be a bit confusing. Allow me to lay it out step by step as follows:

Initial position:
Long AAPL 300 shares @ 170
Long 3 Nov 155 puts
Short 6 Nov 175/180 calls

AAPL moves up and following adjustments made:

roll up 3 Nov 155 puts to 3 Nov 165 puts
roll up 3 (leaving 3 behind with the butterfly) Nov 180 call to 3 Nov 185 calls.

AAPL moves up further and following adjustments made:
sell to close the 3 Nov 185 calls
roll up 3 Nov 165 puts to 3 Nov 180 puts
short 6 Nov 195/200 calls

Net position after adjustments:
Long 300 shares of AAPL @ 188
Short 6 Nov 175 calls
Long 3 Nov 185 calls
Long 3 Nov 180 puts
Short 6 Nov 195 calls
Long 6 Nov 200 calls

I hope this explains my position after the adjustments. Should I close the 175/180 ratio since it has upside risk? Is rolling the 3 Nov 180 calls up appropriate? Will eagerly await your comments

IQ

Ri$k Doctor

Slingshot adjustments

« **Reply #4 on:** November 18, 2007, 06:59:40 PM »

I have corrected the previous Dissections 1&2 and the *kickers* were the 165 calls in Dissection 1, not the highest strike because your vertical was not done at the adjacent srikes to the put strike.

The*kickers* were the 180 calls in Dissection 2.

QUOTE
Net position after adjustments:
Long 300 shares of AAPL @ 188
Short 6 Nov 175 calls
Long 3 Nov 185 calls
Long 3 Nov 180 puts
Short 6 Nov 195 calls
Long 6 Nov 200 calls

Didn't you still have 3 Long 180 calls, as well?

Dissection 3: Includes 3 Long 180 calls (that I think you still had):

	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	T	V	X
13				PivotK	165											PivotK	165	
14			Month	NOV	3			Inc Adj	Y							NOV		
15	Raw Position										Butterfly Dissector					Work Sheet		
16	nC	rC	Adj	Cur	K	Cur	Adj	rP	nP	K		Bfly1	Bfly2	Bfly3	K	C	K	P
35					150					150					150		150	
36					155					155					155		155	
37					160					160					160		160	
38					165	3	(3)			165					165		165	
39					170					170					170		170	
40	(6)	(6)		(6)	175					175					175	(6)	175	
41	6	3		3	180		3	3		180					180	6	180	
42			(3)	3	185					185					185		185	
43					190					190					190		190	
44	(6)	(6)	(6)		195					195					195	(6)	195	
45	6	6	6		200					200					200	6	200	
59			(3)	3	Net					Net					Net		Net	

That means that you had 2*6 lot NOV bear spreads and had no more calls to sell. You must have sone rather well considering that NOVexpiry came along and these verticals wer out of the money.

iqsee

Slingshot adjustments

« **Reply #5 on:** November 18, 2007, 09:13:34 PM »

Thank you for the dissection of the position. I did have the 3 nov 180 calls and I had sold to close the kicker 3 nov 185 calls. Sorry about that omission. Now it is clear to me that by rolling the puts (synthetic calls) I no longer had a butterfly but 2 credit spreads. I appreciate the power of dissection in understanding the net position. It explains clearly now that there was no need to close the -6 nov175/+3 nov 180 call ratio since it was part of the 6 nov 175/180 credit spread and could not loose much more into expiration. AAPLs move down below the spread resulted in profits on both the credit spreads. Bottom line is to leave the original slingshot in place, roll the kickers and the puts, establish another credit spread above (twice the number) , close the kicker when in profit (traders choice) or let it run for more profit. I have learnt so much from your presentations and explanation. Thank you.

IQ

Ri$k Doctor

Slingshot adjustments

« **Reply #6 on:** November 18, 2007, 09:51:29 PM »

Anytime!

arp

Slingshot adjustments

« **Reply #7 on:** November 24, 2007, 12:01:36 PM »

QUOTE
Bottom line is to leave the original slingshot in place, roll the kickers **and the puts,** establish another credit spread above

Hi Charles & IQ,

I've some questions regarding what's in red in the quote above. I've thought about the consequences of such adjustment, and some feedback would be appreciated.

Assuming you want to maintain your general bullish bias on the stock and are interested in locking-in some profits:

If you roll the puts higher as suggested, you end-up breaking up the embedded butterfly and will end up with a backspread-type position, once you move the put above the short strike of your call verticals. There is nothing wrong with that, if that's what you were looking to get into, but I'm wondering if that's what we would want most of the time, after the stock has moved in your favor & we're still bullish?

The slingshot started out as a fly + call kicker, with a fairly neutral or positive theta. Once we have a backspread in there, now we're real short theta and longer gamma. Now we want the stock to *really* move and a sideway action and/or drop in IV will start hurting.

The sale of another OTM call verticals does help, but not to a huge extent.

My thinking as far as adjustments if stock moves higher has been to either take profit on the call kicker by moving it higher, spreading it off, etc. And/or to sell more OTM/ATM call verticals to establish another slingshot above the current one.

My question is this: If I want to maintain a bullish posture, keeping my theta positive or at least neutral, and I want to lock-in some profits, would rolling the puts higher ever be a wise adjustment? When would you consider doing such, before expiration? [again, assuming I've not turned bearish]

Thanks
Ali

Ri$k Doctor

Slingshot adjustments
« **Reply #8 on:** November 26, 2007, 08:50:00 AM »

To reduce theta, while rolling up the put, you could move it out to a further month. You hit the nail on the head though with regard to managing deltas. Being "Bullish" is a relative concept. How bullish are you? Are you more bullish than you were? Less? Exactly the same?

All adjustments modify the current Greek exposure and because an options position is a living and breathing entity, changes in time or underlying level, in turn changes all the variables and your *opinion* to some degree.

QUOTE
...There is nothing wrong with that, if that's what you were looking to get into...

Therefore, there is no standard answer for all situations. As you adjust and roll, which strike levels and which month should vary according to the resulting position that should be consistent with your 'then' current opinion.

beny12

Hedging SPX Options with VIX Options

« **on:** September 28, 2007, 02:09:09 AM »

Hello,

I already searched the web for an answer to my question but couldn't find anything.
I want to know how to hedge vega risk of SPX options. I think the best way is to do it with VIX options but how do I figure out how many VIX options you need to hedge an ATM Straddle?

e.g. Long ATM Straddle and I want to hedge the risk of falling volatility (when the market goes up). What's the best way to do this? Sell ATM VIX Calls - but how many??

Thanks and best regards
Ben

Ri$k Doctor

Hedging SPX Options with VIX Options

« **Reply #1 on:** October 02, 2007, 07:59:53 AM »

Congratulations Ben! You have stumped the Ri$k Doctor. I have some answers from market makers in the pit to try to get you that answer, but I am waiting for further information. So far here is what they say:

"You will need to sell a VIX strangle to hedge the vega risk in the long SPX straddle, and at the same time scalp gammas with the futures to offset the time decay.

After a long discussion with a VIX market maker; "If you do not do these things you can very easily get killed, it is a very dangerous position. The VIX instrument is European settled so you will need to really know the nuances of the VIX contract, a lot of folks lost a lot of money because the contract has no clear analog with regular index/stock/futures options.

Watch this space for more... I have asked this:
Should you go Vega to Vega? Same amount of Vega Dollars?

bb35360

Hedging SPX Options with VIX Options

« **Reply #2 on:** October 04, 2007, 02:29:52 PM »

While not an expert on the VIX, I have traded it a bit. My recommendation is to keep it simple. Either hedge your vegas with another trade on the SPX, or use another correlated underlying. The VIX, while alluring, doesn't trade off the spot, which throws a huge wrench into any trading plan, and can get confusing. Furthermore, as conditions change, I find it easier to adjust positions that I understand well and make conceptual sense, as opposed to trades that are convoluted and require too much mental gymnastics. I mean, just thinking about vegas on the VIX makes my mind swim.

Charles, the volume in VIX options has really increased over the last several months. Are you, or your market maker friend, aware of how much of that volume is retail vs institutional? And how are most people trading it? Straight Long calls and puts, or are speculators trying to place range bound trades, etc.
ST

beny12

Hedging SPX Options with VIX Options

« **Reply #3 on:** October 06, 2007, 07:21:38 AM »

Hello RiskDoctor,
Thanks for your answer an for your efforts to get them. Sorry for my delayed reply but as after my first posting some days passed without nobody answering, I thought you're probably on vacation.

> **Quote**
> "You will need to sell a VIX strangle to hedge the vega risk in the long SPX straddle, and at the same time scalp gammas with the futures to offset the time decay."

You should gamma scalp in order to offset time decay of the straddle? If I only want to be vega hedged for one or two days you normally don't have to care about time decay and therefore you don't need the gamma scalp. Am I right or is the gammascalp important for the vega hedge?

> **Quote**
> **Watch this space for more...** I have asked this:
> Should you go Vega to Vega? Same amount of Vega Dollars?

Very interesting to know. Your VIX MM should know this
Ben

---

beny12

Hedging SPX Options with VIX Options

« **Reply #4 on:** October 06, 2007, 07:38:12 AM »

Hello,

Yesterday was a good example how important it can be to be vega hedged!

The markets rallied and like very often when an index rallies the (implied) volatility went down.
So if you bought on Thursdays close, an SPX OCT 1540/1545 Strangle for ~34.50, by Friday's close that strangle was worth ~35.40. Although the market made a big up-move, that Strangle could only gain .90 due to decreased implied volatility.
So my goal is to hedge volatility for such 1 or 2 day moves!

The ATM VIX OCT 18/19 Strangle was ~2.60 at Thursday's close and was ~2.25 at Friday's close. The whole gain came from the Short VIX Call 19.

How do I figure out how many VIX Srangles I have to short to be almost vega hedged with the SPX strangle?

Thanks
Ben

Ri$k Doctor

Hedging SPX Options with VIX Options

« **Reply #5 on:** October 06, 2007, 05:59:54 PM »

Yes about vacation and afterwards had deadlines to meet. Thanks for your patience. **The consensus is "Yes": Vega$ to Vega$.** But also, if it were me, to be delta neautral, I would take away the effects of the P/L due to changes in the underlying (on a pure IV to IV play/hedge).

The gamma scalping would be necessary for both positions; for the long gamma side, to capture eroding premium as well as the short gamma side to protect against manufactured adverse deltas.

What kind of size are you playing with? The reason I ask is because if you are playing too small, this would be a futile endeavor.

---

beny12

Hedging SPX Options with VIX Options

« **Reply #6 on:** October 07, 2007, 02:02:08 AM »

Hello and thanks for your answer!

> **Quote**
> What kind of size are you playing with?

A Straddle/Strangle with around 10-20 contracts.

> **Quote**
> Yes: Vega$ to Vega$.

Thats what I don't understand :-(Isn't it better to compare the straddle Vega$ with the VIX option Delta$?

I just had a look at the actual SPX and VIX option prices and their Greeks. On Friday SPX closed at 1557,59.
A Oct. ATM Strangle (1555/1560) with 10 contracts each side has a $-Vega of: 10*100*(1,2047+1,2182) = 2422,90$
=> So if the VIX falls 1 percentage point (and the underlying doesn't move) the position looses 2422,90$.

The VIX ist at 16,91. The Oct. VIX 17 Call has a Delta of 0,5432 (54,32$) and a Vega of 0,0132 (1,32$).

In order to be vega hedged shouldn't I look at the Delta$ of the VIX call? => 2422,90$ / 54,32$ = ~44 contracts. So one needs 44 Short ATM VIX calls to vega hedge the long 10-contracts-strangle.

Sorry for all these questions and thanks for all your efforts!
Have a nice Sunday
Ben

Ri$k Doctor

Hedging SPX Options with VIX Options

« **Reply #7 on:** October 21, 2007, 05:02:17 PM »

Looking into it further, I confirm that this it is not worth hedging. It seems that the CBOE has its own formula for Vega for the VIX. Judging from the pure Vega$ you would have to spread 85 to 1 (but....):

SPX S&P 500 INDEX — Vega — Impl Vol — 2

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
1561.80	+7.39	1560.88	1562.27	0 x 0	0	1555.41	1563.03	1554.09

CALLS VEGA	CALLS IMPL VOL	CALLS BID X	CALLS ASK X	EXP	STRIKE	PUTS BID X	PUTS ASK X	PUTS VEGA	PUTS IMPL VOL
NOV 07 (32) 100									18.36%
1.86	17.12%	35.60 C	37.60 C	NOV 07	1560	25.90 C	27.90 C	1.86	16.66%
1.87	16.69%	32.40 C	34.00 C	NOV 07	1565	27.70 C	29.70 C	1.87	16.35%

STK PRICE	MODE	DELTA	GAMMA	THETA	VEGA	P/L OPEN	P/L DAY	BP EFFECT
1561.80	Live	84.65	10.13	-950.77	3723.92	($2.60)	($2.60)	($60,100.00

	SPREAD	SIDE	QTY	SYMBOL	EXP	STRIKE	TYPE	PRICE	VOL	DELTA
☑	IND		0	SPX			INDEX	.00	18.18%	.00
☑	STRANGLE	BUY	+10	SPX	NOV 07	1565	CALL	60.10	16.69%	84.65
		BUY	+10	SPX	NOV 07	1560	PUT	DEBIT	16.66%	

VIX CBOE VOLATILITY INDEX — Vega — Impl Vol — 2

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
17.73	-1.15	0	0	0 x 0	0	18.68	18.74	17.49

CALLS VEGA	CALLS IMPL VOL	CALLS BID X	CALLS ASK X	EXP	STRIKE	PUTS BID X	PUTS ASK X	PUTS VEGA	PUTS IMPL VOL
NOV4 07 (37) 100									86.25%
.02	125.08%	3.10 C	3.30 C	NOV4 07	17	.70 C	.80 C	.02	50.04%
.02	122.32%	2.65 C	2.75 C	NOV4 07	18	1.20 C	1.30 C	.02	50.60%

STK PRICE	MODE	DELTA	GAMMA	THETA	VEGA	P/L OPEN	P/L DAY	BP EFFECT
17.73	Live	18184.20	15822.00	-4271.56	3720.67	$228.70	$228.70	($293,250.00

	SPREAD	SIDE	QTY	SYMBOL	EXP	STRIKE	TYPE	PRICE	VOL	DELTA
☑	IND		0	VIX			INDEX	.00	91.73%	.00
☑	STRANGLE	BUY	+850	VIX	NOV4 07	18	CALL	3.45	122.32%	18184.20
		BUY	+850	VIX	NOV4 07	17	PUT	DEBIT	50.04%	

...judging from the IV charts and assuming a middle range of 21% IV (moving to extremes of 14% and 28% -- 7% in either direction) for the SPX and 105% for the VIX moving to the extremes of 50% and 160% -- 55% in either direction) only warrants going 8 to 1 (55%/7%).

Bottom Line: This is out of my league and when it is, it is a good thing -- I just stay away and do what I know. Be careful! and Good Luck.

visitor

Relative Option Pricing

« **on:** October 08, 2007, 10:24:40 AM »

Hello all,

Are there any books or videos about how to price all Options utilizing what the floor traders / Market makers use which is Relative Pricing?

Patiently awaiting all of your replies especially from the

RiskDoctor himself.

Thank you.

Ri$k Doctor

Relative Option Pricing

« **Reply #1 on:** October 09, 2007, 10:19:22 AM »

"Options: Perception and Deception"

All the bst,
Charles

visitor

Relative Option Pricing

« **Reply #2 on:** October 09, 2007, 11:27:21 AM »

Ri$k Doctor,

Thanks so much for the reply!

Your the best!

Sincerely yours

Ri$k Doctor

Relative Option Pricing

« **Reply #3 on:** October 14, 2007, 11:19:23 AM »

I just know of no other book for Market Makers.

pjs

box and dividends
« **on:** September 24, 2007, 09:54:19 AM »

Why is the dividend added to a box? Wouldn't the position be synthetically long and short the dividend (as well as the stock)? For that matter why would there be any carry costs at all?

Ri$k Doctor

box and dividends
« **Reply #1 on:** October 01, 2007, 06:36:21 PM »

The dividend is added when the underlying is between the strikes. The upper strike would not be an exercise and therefore does not include the dividend.

jtbirk

Boxing off an ITM condor

« **on:** September 21, 2007, 12:15:57 PM »

Hi Charles,

Today (expiration) I had an ITM 129/130/135/136 call condor on the DIA. A couple days ago I boxed off the bear spread portion with a sale of a 135/136 put vertical, thus being left with an ITM bull spread.

Today I was assigned on my 130 calls and 135 calls. I thought that with everything ITM that the exercise/assignment process over the weekend would bring everything back to normal on Monday. Luckily I checked with my broker and they said I had to exercise my 129's and 136's (calls) myself to bring things back in line to avoid a margin call. Am I wrong in assuming that this all would have been taken care of over the weekend by my broker? It's easy to understand how you can let an ITM long vertical go to expiration without touching it and achieve max profit. If assigned on a short vertical, shouldn't you be able to also let it go to expiration with the exercise/assignment process taking care of your long or short stock?

Jeff

Ri$k Doctor

Boxing off an ITM condor

« **Reply #1 on:** October 01, 2007, 06:34:45 PM »

I do not understand why your broker would not know that your long options would be automatically exercised for you as they were greater than .05 ITM. You are correct in thinking that there was nothing that you had to do.

ezmoney

Broken Wing Butterfly
« **on:** September 02, 2007, 09:49:27 AM »

I have a Paper-Trade of a Call
Broken Wing Butterfly on the
MNX SEP 195 / 197.5 / 202.5 for a Credit.

Let??s suppose the MNX is at 201 and past my short.

What adjustment would be good for this position?

Also, what are your thoughts on the Broken Wing Butterfly as a useful strategy?

Ri$k Doctor

Broken Wing Butterfly

« **Reply #1 on:** September 03, 2007, 07:25:07 PM »

There is not anything magical about BWBs for "credits'. What are your ratios?

I choose placements of the strikes based upon my interpretation of support and resistance. How did you come up with these strike placements?

I choose to get out when the underlying has violated a ceratin level. Is yours 201? If so then get out or adjust, at that point. Will above 201 be bullish to you? If so, perhaps unwind the bear spread portion and ride the bull spread.

BWBs should not be put on for the arbitrary reason that there is a credit available. It should be more about playing for a range because a BWB is a range trade. It is a bull spread financed by the sale of more bear spreads. The idea is for the bull spread to be ITM and the bear spread to be OTM. Something happens to make you want to liquidate; enough profits or enough losses or the market does something other than what you thought it would do.

Tell me about your reasoning and perhaps I can be more helpful.

ezmoney

Broken Wing Butterfly
« **Reply #2 on:** September 04, 2007, 05:56:47 AM »

My question is what should be an exit plan when you put on a trade such as this.

Call Broken Wing Butterfly on the
MNX SEP. 195/ 197.5 / 202.5
1 by -2 by 1

For a .30 Credit.

I think MNX has resistance at 200.

I do not have an exit plan.
As long as the MNX stays below my breakeven, I am fine.

I am asking about the worse case scenario.
Let??s suppose the MNX is past my Breakeven point.

What should be my exit plan and what adjustment would be good for this position?

Ri$k Doctor

Broken Wing Butterfly

« **Reply #3 on:** September 04, 2007, 07:12:30 AM »

The position dissects to a 197.5 (body) butterfly and a 200/202.5 bear spread:

	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	T	V	X
13				PivotK	200											PivotK	200	
14			Month	Sep				Inc Adj	Y							Sep		
15	Raw Position										Butterfly Dissector					Work Sheet		
16	nC	rC	Adj	Cur	K	Cur	Adj	rP	nP	K		Bfly1	Bfly2	Bfly3	K	C	K	P
36					192.5					192.5					192.5		192.5	
37		1		1	195				1	195					195		195	
38		(2)		(2)	197.5				(2)	197.5	1	1			197.5		197.5	
39	(1)				200				1	200					200	(1)	200	
40	1	1		1	202.5					202.5					202.5	1	202.5	
41					205					205					205		205	
59					Net					Net	1	1			Net		Net	

If the market moves a lot higher by expiration, the butterfly goes worthless and the bearspread will have a maximized loss of 2.20 because of the initial .30 credit.

If the MNX goes beyond 200 and you have no hope for it to retrace back down, you can simply take your lumps that will be a lot less than 2.20.

If you think it can come back down but you wish to avoid the heat of the bearspread, you can buy it back and hang onto the butterfly for a hopeful retracement to 197.5.

If, on the other hand, you turn bullish above 200 then you can buy the 197.5/202.5 back and let the 195/197.5 ride:

	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	T	V	X
13				PivotK	195											PivotK	195	
14			Month	Sep				Inc Adj	Y							Sep		
15	Raw Position										Butterfly Dissector					Work Sheet		
16	nC	rC	Adj	Cur	K	Cur	Adj	rP	nP	K		Bfly1	Bfly2	Bfly3	K	C	K	P
36					192.5					192.5					192.5		192.5	
37	1	1		1	195					195					195	1	195	
38	(1)	(1)	1	(2)	197.5					197.5					197.5	(1)	197.5	
39					200					200					200		200	
40			(1)	1	202.5					202.5					202.5		202.5	
41					205					205					205		205	
59					Net					Net					Net		Net	

It seems to me that you are experimenting with this BWB and have very little justification for having the position.

As your experience evolves, you will want to have more of a gameplan that involves having reasons for the strike placements (short strikes where you think they won't get violated, longs where they will be ITM along with further longs for the insurance and perhpas kickers now and then).

The "credit for credit sake" approach is too arbitrary. I would rather have a debit with the likeihood that the underlying will be in the range that my analysis dictates. Certainly that also implies that when my analysis proves wrong that I will have in my gameplan an idea of where to adjust and for what reason. The new adjusted position will then take on the attributes of a newly initiated position with its own criteria for liquidation and / or future adjustments.

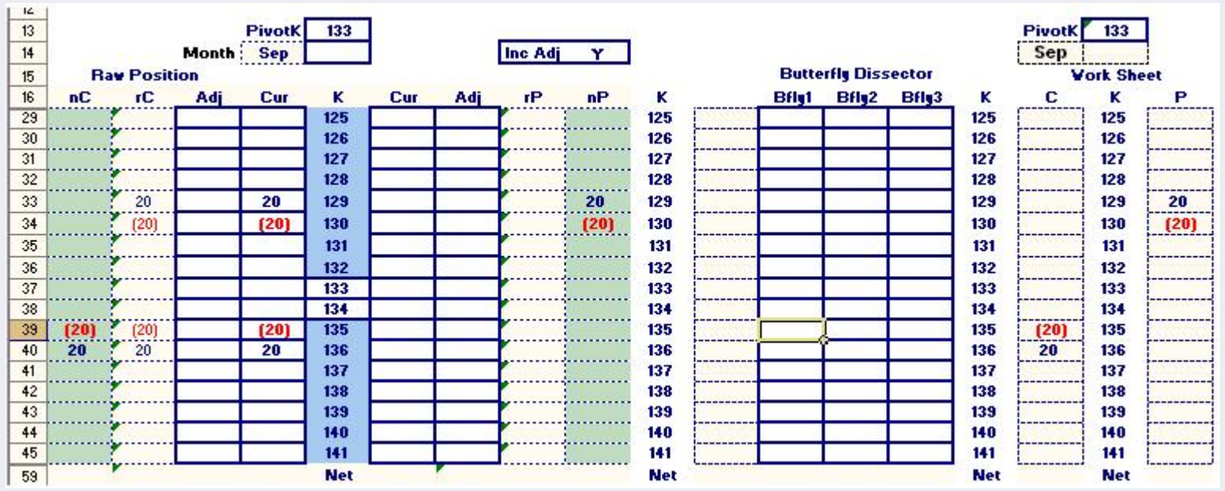
jtbirk

Help dissecting a call condor

« **on:** August 26, 2007, 03:26:43 PM »

Hi Charles,

The following image is of a condor "carded up":



I am having difficulty understanding how to actually go about dissecting out the butters. I'm comfortable doing the SYN and BOX dissections by hand to arrive at the nC and nP, so I understand that part of the spreadsheet. The underlying is currently around 133 so that's where I've placed the pivot. I also understand that my ITM call spread is synthetically equivalent to an OTM put spread.

Is there a step-by-step process to go through now with the butters? If I'm worried that the underlying is going to trade higher, how can I use the dissector to assess my alternatives? In the butterfly dissector columns, do you always enter a positive integer? And with my position of 20 condors, I'm also a little confused as to which quantity of butters I should enter (5,10,20?)

Lot's of questions but happy to be making quick progress through the material. Thanks in advance.

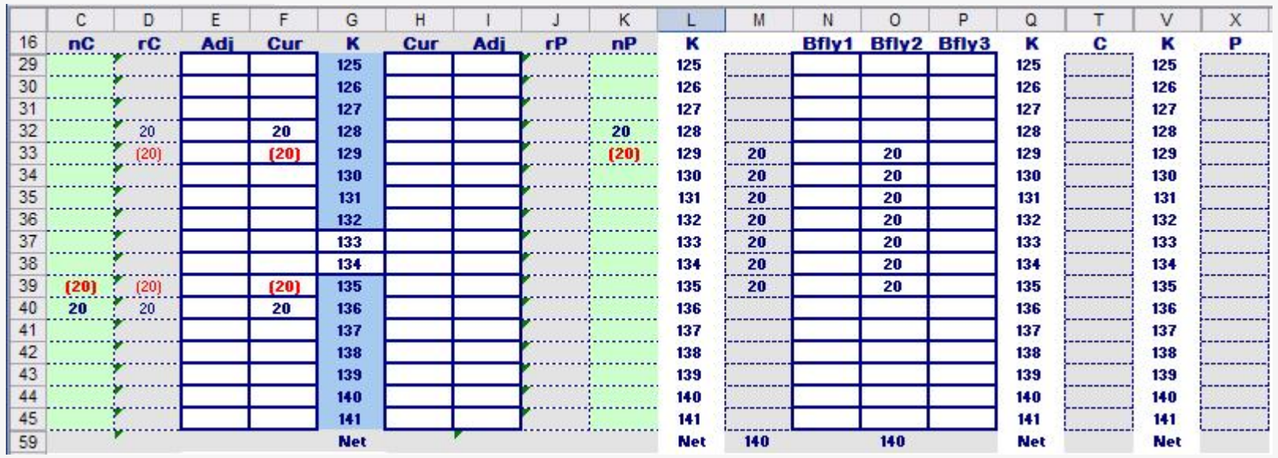
Jeff

Ri$k Doctor

Help dissecting a call condor

« **Reply #1 on:** August 31, 2007, 07:32:46 AM »

First dissect out any **WING** strike by entering a positive integer (long butterflies for retail investors) at the **BODY** strike and see what is left in columns 'T" or "X". Keep repeating as the numbers in columns 'T" or "X" are removed (in this case) or reduced to a tradeable configuration.



jtbirk

Help dissecting a call condor

« **Reply #2 on:** August 31, 2007, 08:55:40 AM »

Excellent. Thank you.

Jeff

lewisbrown

Need to sell a large stock position, with a bang!
« **on:** August 08, 2007, 08:58:32 PM »

Dear Mr. Cottle and forum members,

I have two very large big cap stock positions which dominate my portfolio. I need to liquidate them to diversify. However, I'd like to do more than just call the broker and tell him to sell. I'd like to collect some premium from a covered call, a bull collar, or some type of sequential calendar spread. But I'm very new to all this and could use some advice.

I'd like to have the majority of the holdings liquidated within 6 - 9 months (unless of course I keep making good returns based on your kind advice). I've thought buying a back month put for protection and selling a series of near month calls at various strikes. I'm not really sure how best to optimize all that.

Any suggestions are greatly appreciated. Thanks.

Ri$k Doctor

Need to sell a large stock position, with a bang!
« **Reply #1 on:** August 14, 2007, 07:58:05 AM »

It would depend on a few things:

How liquid re the options? --- It may not be a fair game to play if the bids and asks are too wide.

My personal approach is to map the stock's personality using Diamonetrics so my question is could I harness the pattern within a Diamionetric Grid?

Depending on these nuances and volatility levels, it may be prudent to portfolioize several stregies depending on the size of the holdings and perhaps to calendarize some of the position.

What are the underlyings and we will make the assumption that you have $100,000 of each (it may be better not to divulge the actual size).

lewisbrown

Need to sell a large stock position, with a bang!
« **Reply #2 on:** August 16, 2007, 08:47:23 PM »

The underlyings are XOM & GE and $100,000 of each is a good assumption.

I agree that a portfolio of several strategies would be in order.

Thanks.

lb

Ri$k Doctor **Need to sell a large stock position, with a bang!**
« **Reply #3 on:** August 20, 2007, 10:13:49 PM »

Here is the XOM Diamonetric Grid that suggests that the trend is still valid:
XOM

IV is on the moon, you could go with a ButterflyHedge :

...and it seems that for OCT that the 80/85/90 butterfly going for 1.00 is a pretty good bet:

	SPREAD	SIDE	QTY	SYMBOL	EXP	STRIKE	TYPE	LINK	PRICE	
●	BUTTERFLY	BUY	+10	XOM	OCT 07	90	PUT		1.00	LMT
		SELL	-20	XOM	OCT 07	85	PUT		DEBIT	
		BUY	+10	XOM	OCT 07	80	PUT			

You would buy 10 OCT 80 Puts, sell 20 OCT 85 Calls and buy 10 OCT 90 calls against your 10oo shares of XOM.

GE

GE has a similar story but because of the strikes you might want to go to MAR where the target is smaller:

IV is also on the moon, you could go with a CondorHedge :

The 35/37.5/40/42.5 condor going for .70 is a pretty good bet:

You would buy 25 MAR 35 Puts, sell 25 MAR 37.5 Calls, sell 25 MAR 40 Calls and buy 25 MAR 42.5 Calls against your 25oo shares of GE.

ELECTRIC CO — Easy to Borrow — Open Inte

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN
38.22 N	-.23	37.96 Q	38.20 Q	20 x 5	40,280,900	38.49

TRADE GRID

OPTIONS — Single

CALLS						PUT		
OPEN.INT	IMPL VOL	BID X	ASK X	EXP	STRIKE	BID X	AS
441	29.94%	8.85 I	9.00 I	MAR 08	30	.60 N	.64
1,497	28.25%	6.80 B	6.95 I	MAR 08	32.5	1.01 N	1.06 N
2,530	26.65%	4.95 I	5.10 I	MAR 08	35	1.62 N	1.68 N
4,334	25.25%	3.40 B	3.50 X	MAR 08	37.5	2.50 I	2.57 N
4,488	23.95%	2.16 N	2.22 I	MAR 08	40	3.70 I	3.80 N
9,472	22.84%	1.24 N	1.31 I	MAR 08	42.5	5.25 I	5.40 N
1,028	21.96%	.65 C	.71 I	MAR 08	45	7.20 X	7.30 N

POSITION AND ORDER ENTRY TOOLS

	DELTA	GAMMA	THETA	VEGA	P/L OPEN
GE	.00	.00	.00	.00	$0.00

ORDER ENTRY AND ORDER QUEUE

ORDER ENTRY | ORDER QUEUE

SPREAD	SIDE	QTY	SYMBOL	EXP	STRIKE	TYPE	LINK	PRICE	
CONDOR	BUY	+25	GE	MAR 08	42.5	PUT		.69	LMT
	SELL	-25	GE	MAR 08	40	PUT		DEBIT	
	SELL	-25	GE	MAR 08	37.5	PUT			
	BUY	+25	GE	MAR 08	35	PUT			

Precision Investing

GOOG EARNINGS PLAY

« **on:** July 24, 2007, 09:19:28 AM »

Hi Charles,

Recently I played Google earnings, with a calendar diagonal ?? July short 600 calls, and 500 short puts, with long Aug., 560 call and 540 puts. I put on this trade a day before the earnings i.e. 19th July, 07.

I knew that I have VEGA risk, but I thought the move will be big enough to cover the VEGA loss, well, after the earnings as presumed volatility got crushed, even though the move was big, I managed to make little bit on it.

Charles, for sure there should be a better way to play this earnings game, especially when IV is at all time high. Please comment.

bb35360

GOOG EARNINGS PLAY

« **Reply #1 on:** July 25, 2007, 02:41:34 PM »

While waiting for Charles' reply, here's my suggestion.

If you are playing a certain range, then trade a butterfly or naked short straddle/strangle. The later done in a back month (eg Jan 08) was still profitable despite the large drop. Using a back month play you emphasize the short vega, while short gamma is less of a risk.

If you expect a large move and IV implosion, consider short calendar.

All of these trades could be entered the day before earnings, and exited the next day.

ST

Precision Investing

GOOG EARNINGS PLAY

« **Reply #2 on:** July 25, 2007, 03:46:18 PM »

Thanks bb35360, appreciate your response. I like the later one (far back month), I'll do some back testing, while waiting for Charles reply.

Thanks again.

Ri$k Doctor

GOOG EARNINGS PLAY

« **Reply #3 on:** July 27, 2007, 12:59:29 PM »

Sorry about the late reply. Glad you made money but I thought it not a good idea a high priced strangle in AUG with only a little discount in the way of a short JUL strangle. It is no surprise that Vol was going to correct as it does after every ernings report and as seen in the chart.

An reasonably expected 10% correction would take at least 6.00 (judging from vega*) out of the AUG strangle dwarfing the JUL going to worthless fron the 2.25 credit in your picture.

*Your AUG Vega had 30 days to go and was even greater than what is in the following image with only 21 days to go.

Ri$k Doctor

GOOG EARNINGS PLAY

« **Reply #4 on:** July 27, 2007, 01:01:25 PM »

Sorry about the late reply. Glad you made money but I thought it not a good idea a high priced strangle in AUG with only a little discount in the way of a short JUL strangle. It is no surprise that Vol was going to correct as it does after every earnings report and as seen in the chart.

You needed a huge move to profit die to a reasonably expected 10% correction that would take at least 6.00 (judging from vega*) out of the AUG strangle dwarfing the JUL going to worthless from the 2.60 credit in your picture.

*Your AUG Vega had 30 days to go and was even greater than what is in the following image with only 21 days to go.

GOOG | GOOGLE INC... Easy to Borrow | NASDAQ | Volume | Vega | 14

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
511.89 D	+3.89	511.10 Q	511.18 Q	1 x 1	5,456,230	508.53	516.62	505.50

TRADE GRID | SYMBOLS

OPTIONS | Single | Composite

CALLS						PUTS				
VOLUME	VEGA	BID X	ASK X	EXP	STRIKE	BID X	ASK X	VOLUME	VEGA	
AUG 07 (21) 100										25.58%
64	.12	63.70 N	64.40 N	AUG 07	450	.50 C	.65 X	288	.10	
236	.16	54.00 N	54.80 I	AUG 07	460	.80 I	.95 N	870	.14	
424	.22	44.60 I	45.40 N	AUG 07	470	1.40 I	1.60 I	1,550	.21	
410	.29	35.80 I	36.40 I	AUG 07	480	2.40 I	2.65 I	2,097	.29	
990	.38	27.50 N	28.10 X	AUG 07	490	4.10 I	4.40 I	2,057	.37	
3,068	.45	20.20 N	20.60 C	AUG 07	500	6.70 I	6.90 C	5,886	.45	
5,719	.50	14.10 I	14.30 X	AUG 07	510	10.40 I	10.80 I	5,776	.50	
4,328	.49	9.00 C	9.30 I	AUG 07	520	15.50 I	15.80 I	1,803	.49	
3,271	.44	5.40 B	5.80 I	AUG 07	530	22.00 I	22.30 N	862	.43	
2,159	.35	3.00 N	3.20 B	AUG 07	540	29.60 C	30.10 I	655	.32	
3,565	.25	1.60 C	1.70 N	AUG 07	550	38.30 I	38.80 I	209	.17	
2,251	.16	.75 I	.95 I	AUG 07	560	47.90 B	48.30 N	74	.00	

Precision Investing

GOOG EARNINGS PLAY

« **Reply #5 on:** July 27, 2007, 07:43:29 PM »

I got it. Thanks Charles.

Maui trader

ITM Verticals
« **on:** July 18, 2007, 04:05:44 PM »

Hi Chuck,
Before I do anything stupid, I thought I would ask you. Also if this topic has been covered before, I apologize for having to cover it again as I couldn't find a previous thread on this subject.

I'm considering a strategy on buying ITM call spreads such as buying the Aug 130/135 AAPL call spread for $3.00 debit with AAPL at $138. While I'm still bullish I don't need the underlying to do much of anything b/c the short option is ITM. In fact it can even go down a couple of dollars and I still would be okay.

My downside exit would be $1.50 so essentially I'm risking $1.50 to make $2.00. I'm thinking with this strategy if I'm on the right side 4 out of 10 times I break even. If I'm on the right side half the time, I make $2.50, and if I can increase to 6 out of 10, I double my profits to $6. My thinking is that by doing this with ITM options increases the probability of me being on the right side.

AAPL APPLE INC Easy to Borrow NASDAQ Delta Vega 6

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
138.12 D	-.7899	135.22 Q	139.50 Q	9 x 20	27,049,910	138.19	138.44	136.04

OPTIONS Single Composite

CALLS							PUTS					
DELTA	VEGA	BID X	ASK X	EXP	STRIKE	BID X	ASK X	DELTA	VEGA			
JUL 07 (2) 100												34.58%
AUG 07 (30) 100												51.27%
.79	.12	16.10 C	16.20 I	AUG 07	125	2.50 I	2.55 I	-.21	.12			
.70	.14	12.70 B	12.80 I	AUG 07	130	4.00 I	4.10 I	-.30	.14			
.60	.16	9.70 A	9.80 C	AUG 07	135	6.00 A	6.10 N	-.40	.16			
.50	.16	7.30 B	7.40 X	AUG 07	140	8.60 I	8.70 C	-.50	.16			
.41	.16	5.40 C	5.50 I	AUG 07	145	11.70 I	11.80 I	-.60	.16			
.32	.14	3.90 C	4.00 X	AUG 07	150	15.20 A	15.40 I	-.68	.14			

I have two questions:
1. Does this seem like a reasonable strategy?
2. And probably more importantly, if the trade moves against me and I close out my trade for $1.50 loss, BUT I'm still bullish on the underlying or at the very least neutral, if I decide to roll the strikes down (in this example, I would roll it down to a 125/130 call spread). Does rolling down the strikes seem like a reasonable adjustment or a stupid one?

Thanks Chuck,
Michael

Ri$k Doctor

ITM Verticals
« **Reply #1 on:** July 18, 2007, 04:45:26 PM »

Reasonable strategy Mike. Normally, to avoid the wide bid/ask spreads of ITM debit spreads (Calls in this case), I opt for the narrower bid/aslk spread of the OTM corresponding spread (Puts in this case) but they all have .10 wide markets, so you did fine.

I would however have a place in mind, where you say, "I am wrong" (if you can -- technically) and get out then, rather than how you have proposed. I would not roll down to a spread that cah los even more. I would take on the approach that 'Wrong is Wrong' enven if it later proves to be a winner.

Maui trader

ITM Verticals

« **Reply #2 on:** July 19, 2007, 08:03:39 AM »

Thanks Chuck I appreciate the feedback. With the narrower bid/ask on the put side does that open up the possibility of option arbitrage i.e. buy the call spread for $3.10 but I can sell the put spread for $2.00?

Ri$k Doctor

ITM Verticals

« **Reply #3 on:** July 19, 2007, 09:14:49 AM »

Right, buying the call spread at 3.10, risks 3.10 (plus implicit interest) to make 1.90 (minus implicit interest), while selling the put spread for 2.00, risks 3.00 (minus any interest earned*) to make 2.00 (plus any interest earned*).

*Depends on your Clearing Structure

James Parker

Rolling for Credits
« **on:** June 30, 2007, 03:28:17 AM »

Charles

Some authors on Options Trading suggest that the strategy of 'Rolling Call Options for Credits' offers a high degree of eventual success for well capitalized investors that have sufficient capital to see the strategy through to the end.

Ultimately the trader is relying on the underlying to fall in value below the written strike at some point in the future.

I can see how this approach may not work on individual shares which may be subject to takeover / merger considerations or where options may be de-listed.

However, I would be grateful for your opinion on the issues that need to be considered in respect of index options.

For example, I trade the FTSE 100 index options (cash settled) in the UK which would typically have the following option prices

- FTSE Index value 6625
- 1 month 6625 Call Option 100 points

The Strategy would initially sell a 1 month ATM call option for 100 points and if the index increases in value roll up / out to the next month for a credit (which may require an increase in the number of contracts).

Look forward to your response.

Cheers
James

Ri$k Doctor

Rolling for Credits
« **Reply #1 on:** July 01, 2007, 12:03:04 PM »

When do you roll it to the next ATM? BTW: The ATM is ITM, really. It is because of the Synthetic Futures Price. I don't have access to FTSE but look here at the SPX. The Cash settled at 1503.35 but using the 1505 strikes, you add the middle call value to the strike and subtract the middle put value.

JUL is 1506.55 so ATM strike is 1505
AUG is 1510.10 so ATM strike is 1510
SEP is 1516.20 so ATM strike is 1515
SEP Q is 1516.30 so ATM strike is 1515
DEC is 1527.50 so ATM strike is 1525
DEC Q is 1528.70 so ATM strike is 1530

SPX SP 500 INDEX | Delta | Extrinsic | 1

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
1503.35	-2.36	1501.61	1503.13	0 x 0	0	1505.70	1517.53	1493.61

TRADE GRID | SYMBOLS

OPTIONS | Single | Composite

CALLS						PUTS				
DELTA	EXTRIN...	BID X	ASK X	EXP	STRIKE	BID X	ASK X	DELTA	EXTRIN...	
JUL1 07 (4) 100 (Weeklys)										N/A
JUL 07 (18) 100										16.36%
.52	21.25	21.00 C	21.50 C	JUL 07	1505	19.60 C	19.80 C	-.48	18.05	
AUG 07 (46) 100										17.06%
.55	35.95	35.70 C	36.20 C	AUG 07	1505	30.60 C	31.10 C	-.45	29.20	
SEP 07 (81) 100										16.85%
.57	49.05	48.80 C	49.30 C	SEP 07	1505	38.60 C	39.10 C	-.43	37.20	
SEP4 07 (89) 100 (Quarterlys)										15.59%
.59	51.55	52.90 C	56.90 C	SEP4 07	1500	36.60 C	40.60 C	-.41	38.60	
DEC 07 (172) 100										16.76%
.62	75.70	78.80 C	79.30 C	DEC 07	1500	51.30 C	51.80 C	-.39	51.55	
DEC5 07 (183) 100 (Quarterlys)										14.55%
.63	77.65	79.00 C	83.00 C	DEC5 07	1500	50.30 C	54.30 C	-.39	52.30	

You would have to back test this strategy but I suspect there would be times when serious heat was taken. Be careful. This is a strategy that can turn a fortune into a smaller fortune.

James Parker
RDCC
Full Member
Posts: 207

Rolling for Credits

« **Reply #2 on:** July 02, 2007, 07:46:37 AM »

Charles

Many thanks for prompting me to consider certain aspects of this strategy in more detail.

Just to confirm that we do use the actual or synthetic futures price to determine appropriate ATM strikes (...and to estimate option prices where bid-offer prices not available...)

In terms of backtesting, I have expiry to expiry data for the FTSE100 from 1997 to 2003 inclusive which revealed the following

- FTSE at start was 4216
- FTSE high was 6930 (December 2000)
- FTSE at end was 4410
- largest expiry to expiry increase was 13.81% in Oct 1998
- largest cumulative expiry to expiry increase was 18.48% in Dec 1997/Jan 1998/ Feb 1998
- Range of 1 month ATM call premiums was 31 - 269 points, 0.7% - 4.5% of underlying index value respectively
- Average 1 month ATM call premium was 109 points, approx 2% of underlying index value
- Current 1 month ATM call premium is 75-100 points, approx 1.0-1.5% of underlying index value
- The cumulative profit on the strategy was approx 6500 points over the 1997-2003 period

The analysis that I have done of starting with 1 contract and rolling the call option for a credit expiry to expiry using nearest ATM strike indicates that a maximum of 11 contracts would have been required to maintain this strategy.

However, this point also coincided with 1 month call option premiums of 240 points, at the upper end of the range.

If I substitute call premiums at the lower end of the range this would increase the number of contracts to 25 or so.

If I take a worst case scenario (?) of 4 consecutive months of 5% per month increases in the index the the number of contracts may increase to 80 or so (...ouch....)

There may be ways of reducing the number of contracts in these circumstances by increasing the roll premium by either -

- selling ITM call options (anticipating a fall in the market) or
- selling longer dated expiry options

It would appear that providing -

- the market does eventually fall (which is axiomatic unless we enter another 'new' paradigm)
- that the investor can support the margin requirement (or live with the heat as you say) and
- does not exceed the exchange limit for the number of contracts

then this could be a reasonable approach with a very high probability of eventual profit.

Look forward to your comments

Cheers
James

Ri$k Doctor

Rolling for Credits

« **Reply #3 on:** July 02, 2007, 08:56:56 AM »

The original premise was about:

> Quote
> "...the strategy of 'Rolling Call Options for Credits' offers...".

I understood that you were "Rolling" meaning that the new short would replace the original short with a simultaneous liquidation. Do you mean to tell me that you are, instead, "adding"?

> Quote
> The analysis that I have done of starting with 1 contract and rolling the call option for a credit expiry to expiry using nearest ATM strike indicates that a maximum of 11 contracts would have been required to maintain this strategy.
>
> However, this point also coincided with 1 month call option premiums of 240 points, at the upper end of the range. If I substitute call
>
> premiums at the lower end of the range this would increase the number of contracts to 25 or so.

Indeed, if you are thinking of "Adding", then I will share with you a quote from a friend of mine with extremely deep pockets when, years ago, I suggested he and his extremely wealthy friends learn to trade options; He said,

> Quote
> Charles, my friends and I don't like to TRADE, we like to OWN.

My point is that you will need deep pockets to do execute this Holy Grail Method, and if they are that deep then please consider OWNING instead of trying to Perfect the Art of Adding to Losers. You owe it to your heirs.

James Parker

Rolling for Credits

« **Reply #4 on:** July 04, 2007, 07:51:06 AM »

Charles

Many thanks for your considered response and words of warning.

I fully appreciate that there is no 'holy grail' in trading and that 'rolling for credits' is an approach where the return OF capital (which may take some time if the market goes on a prolonged bull market run) is the over-riding principle rather than the return ON capital.

The approach would simultaneously buy back the 'in the money' call option and sell an 'at the money' option(s) in the same or future month providing the 'roll' can be done for a credit.

The strategy accumulates a whole string of unrealised losses until the market expires below the written strike and pays out.... as you say a process of adding to losers.

It may well be necessary to increase the number of short call option contracts in order to generate a credit .... and herein lies the real danger ....that the market increases too far / too fast / for too long a period and requires a large increase in the number of contracts to maintain the position

Did you ever persuade your friends to trade/hedge/invest using options?

Charles, thanks for taking the time to deal with this question, much appreciated.

Kind Regards
James

Ri$k Doctor

Rolling for Credits

« **Reply #5 on:** July 04, 2007, 08:36:37 PM »

You should watch the free class on the Slingshot Hedge.

fh2000

How to adjust a Slingshot Bear call spread?

« **on:** November 06, 2006, 01:30:15 PM »

Charles, your Slingshot strategy started with a CSCO position for a friend. I happen to have 1000 CSCO and put this trade on a few months ago when CSCO was at $21.

Long 1000 CSCO shares.
Long 10 Jan 07 20 Puts
Short 20 Jan 07 22.5/25 call spread.

Today, CSCO is hovering around $24.70, right up against my high strike for my BCS.

I do not wish to have short calls assigned (there are still some time value left, so I probably do not need to worry now). I do not want to close that out because it is now at the maximum loss situation.

I am thinking of buying a Jan Butterfly 22.5/25/27.5 for $0.90 debit and effectively roll my BCS up one strike.

I am thinking with $900, I have locked in a stock gain about $2500.

Am I on the right track of this adjustment?
fh

Ri$k Doctor

How to adjust a Slingshot Bear call spread?

« **Reply #1 on:** November 16, 2006, 07:24:11 AM »

There should be no exercise (it's a mistake to exercise earlier and you make some money because of it) before January Expiration so the position is fine for now. Please provide details of your trades and I will try to put it all into perspective for you.

In future, for a more prompt response, shoot me an email when you initiate a new topic and I will click "Track this Topic" to receive subsequent posts.

fh2000

How to adjust a Slingshot Bear call spread?

« **Reply #2 on:** November 16, 2006, 11:06:30 AM »

Charles,

Thanks for your generosity of spending your time to respond. I was impatient and also fear that I would get assigned, therefore I bought a Butterfly and effectively rolled up my Bear Call Spread to one higher strike.

Below is my position since I opened SlingshotHedge:
P L tracking from a month ago when CSCO was at $21. Today, CSCO is at $27.25. Stock gain: $6250.
Trades first month:

1. Own 1000 shares of CSCO
2. Open 20 Jan07 22.5/25 Bear Call Spread: credit $970.
3. Open 10 Jan07 20 Put: debit $1400

(I realize I did not open enough credit to cover puts. This is because I do not have enough margin)

Trades current month:
(Opened 20 Jan07 call Butterfly (22.5/25/27.5) with debit: $1400.)
(Rolled up 10 Jan07 20 put to Jan07 25 put: debit $600)

Current positions:

1. Own 1000 Shares of CSCO
2. Own 10 Jan07 25 Puts
3. Own 20 Jan07 25/27.5 Bear call spread

Current P L since Slingshot hedge began about a month ago: $6250+$970-$1400-

$1400-$600 = $4000.

Today, again, my new Bear Call Spread (25/27.5) is reaching the maximum loss

situation. I am in need of an adjustment again in order to protect my CSCO stock

gain. Thanks

Ri$k Doctor

How to adjust a Slingshot Bear call spread?

« **Reply #3 on:** November 16, 2006, 12:37:55 PM »

Part 1:

Information that you have presented:	**Comments:**
PnL tracking from a month ago when CSCO was at $21	Based on the puts being 1.40 -- **August 10th with 98 days to go**
Today, CSCO is at $27.25. Stock gain: $6250.	It seems to me that the stock was around 19.60 when you:
	Sold 20 call spreads for an average price of .485 (.585 and .10)
Trades first month:	and bought the puts for 1.40 each
1. Own 1000 shares of CSCO	Synthetically this is a butterfly and an extra call kicker
2. Open 20 Jan07 22.5/25 Bear Call Spread: credit $970.	The call is simply .10 and the butterfly was .40
3. Open 10 Jan07 20 Put: debit $1400	**1.27** -.485-.485+.10
(I realize I did not open enough credit to cover puts.	K 20C U 20P Int. 98d 5%
This is because I do not have enough margin)	20.00 + **1.27** = 19.60 + 1.40 + 0.27
	This means regardless of where you originally bought the stock,
	having chosen not to sell it at 19.60, you in effect, sold it and
	bought it back at 19.60. Buying the put at 1.40 and selling twice
	as many call spreads at .485 are equivalent to, someone who does
	not own the stock, and chooses to buy the butterfly and extra call for
	.50. In other words you went from 19.60 on the table to .50 on the
	table or from $19,600 to $500.
	The butterfly is going for .30ish and the call for 2.70 ish or 3.00ish
	3.00ish is 6 times the initial value at risk.
	The calls should never be assigned until expiration because they will
	always have at least the carry cost as the extrinsic value.
	The original butterfly required no attention having been bought for
	.40ish and going for .30ish while...
	the 25C bought for.10 each are cruising nicely and could have been
	rolled higher to take money off the table. (Trade's Choice)

Dissection Before Adjustment:

11		10	Raw Calls	Total Net Contracts		Raw Puts										10	Net Contracts				
12																					
13				PivotK	2500											PivotK	2500				
14				Month	JAN	10			Inc Adj	Y						JAN					
15			Raw Position									Butterfly Dissector					Work Sheet				
16	nC	rC	Adj	Cur	K	Cur	Adj	rP	nP	K		Bfly1	Bfly2	Bfly3	K	C	K	P			
36					1750					1750					1750		1750				
37					2000	10		10	10	2000					2000		2000				
38		(20)		(20)	2250				(20)	2250		10	10		2250		2250				
39	10	20		20	2500				10	2500					2500	10	2500				
40					2750					2750					2750		2750				
41					3000					3000					3000		3000				
59	10	10		10	Net					Net		10	10		Net	10	Net				

Dissection After Adjustment: A Back Spread

The difference between a Slingshot and a Back Spread is a Bull Spread in front of the Back Spread which, in this case, was eliminated.

	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	T	V	X
1	PDv2	Month 1	Month 2	Month 3														
2		JAN	Jan															
10																		
11		10	Raw Calls	Total Net Contracts		Raw Puts										10	Net Contracts	
12																		
13				PivotK	2500											PivotK	2500	
14				Month	JAN	10			Inc Adj	Y						JAN		
15			Raw Position									Butterfly Dissector					Work Sheet	
16	nC	rC	Adj	Cur	K	Cur	Adj	rP	nP	K		Bfly1	Bfly2	Bfly3	K	C	K	P
36					1750					1750					1750		1750	
37					2000	10	(10)			2000					2000		2000	
38			20	(20)	2250					2250					2250		2250	
39	(10)	(20)	(40)	20	2500		10	10		2500					2500	(10)	2500	
40	20	20	20		2750					2750					2750	20	2750	
41					3000					3000					3000		3000	
59	10	10		10	Net					Net					Net	10	Net	

Another way to achieve the same result: Selling the butterfly embedded in the Slingshot and selling twice as many (as the 10 base Slingshots) higher strike vertical call spreads.

61			PivotK	2500											PivotK	2500		
62		Month	Jan	10		Inc Adj	Y								Jan			
63	Raw Position									Butterfly Dissector					Work Sheet			
64	nC	rC	Adj	Cur	K	Cur	Adj	rP	nP	K	Bfly1	Bfly2	Bfly3	K	C	K	P	
84					1750					1750				1750		1750		
85					2000	10	(10)			2000				2000		2000		
86		(20)		(20)	2250		20	20		2250				2250		2250		
87	(10)		(20)	20	2500		(10)	(10)		2500				2500	(10)	2500		
88	20	20	20		2750					2750				2750	20	2750		
89					3000					3000				3000		3000		
107	10	10		10	Net					Net				Net	10	Net		

Ri$k Doctor

How to adjust a Slingshot Bear call spread?

« **Reply #4 on:** November 20, 2006, 02:23:47 PM »

Part 2:

Information that you have presented:	**Comments:**
Trades current month:	On the surface, this is buying 20 butterflies for .70 each.
(Opened 20 Jan07 call Butterfly (22.5/25/27.5) with debit: $1400.)	V to V was the 22.5/25 @ 2.00ish vs.1.30ish for the 25/27.5
(Rolled up 10 Jan07 20 put to Jan07 25 put: debit $600)	Rolled up your puts for a .60 debit 10 times
Current positions:	The combination of the two trades can be looked at another way:
	Sold your 10*20/**22.5**/25 Bflys @ .40 (a scratch)
	and Sold 20*25/27.5 Vertical @ 1.30ish twice (1.30 x 2 is 2.60 for your .10)
	Leaving a -10x+20 * 25/27.5 Back Spread each for a 2.50 credit

Calls (Estimated) Puts						
5pt. V	2.5pt. Bfly	2.5pt. V	Strike	2.5pt. V	2.5pt. Bfly	5pt. V
			20			
		2.40		0.10		
4.60	0.40		22.5		0.40	0.60
		2.00		0.50		
3.30	0.70		25		0.70	1.70
		1.30		1.20		
			27.5			

1. Own 1000 Shares of CSCO	It was like selling your extra10*25 calls (Bot at .10) for 2.60 **up $2500**
2. Own 10 Jan07 25 Puts	Also the profit If simply liquidated the 10 extra call kickers at 2.60.
3. Own 20 Jan07 25/27.5 Bear call spread	Our Stock **Profit** differs because I am going off the stock when you changed it into synthetic long 20 calls when the puts were 1.40.
Current PnL since SlingshotHedge began about a month ago:	The **$970** is not a profit but the proceeds of a credit spread that actually lost
$6250+**$970**-$1400-**$1400**-**$600** = $4000.	1.515 each. The next -$1400 is correct for the put loss.
	The next **-$1400 and -$600** are costs not losses.

Prices from 11/16/06

CSCO — CISCO SYS INC Easy to Borrow — NASDAQ — Delta — Impl Vol — 6

UNDERLYING

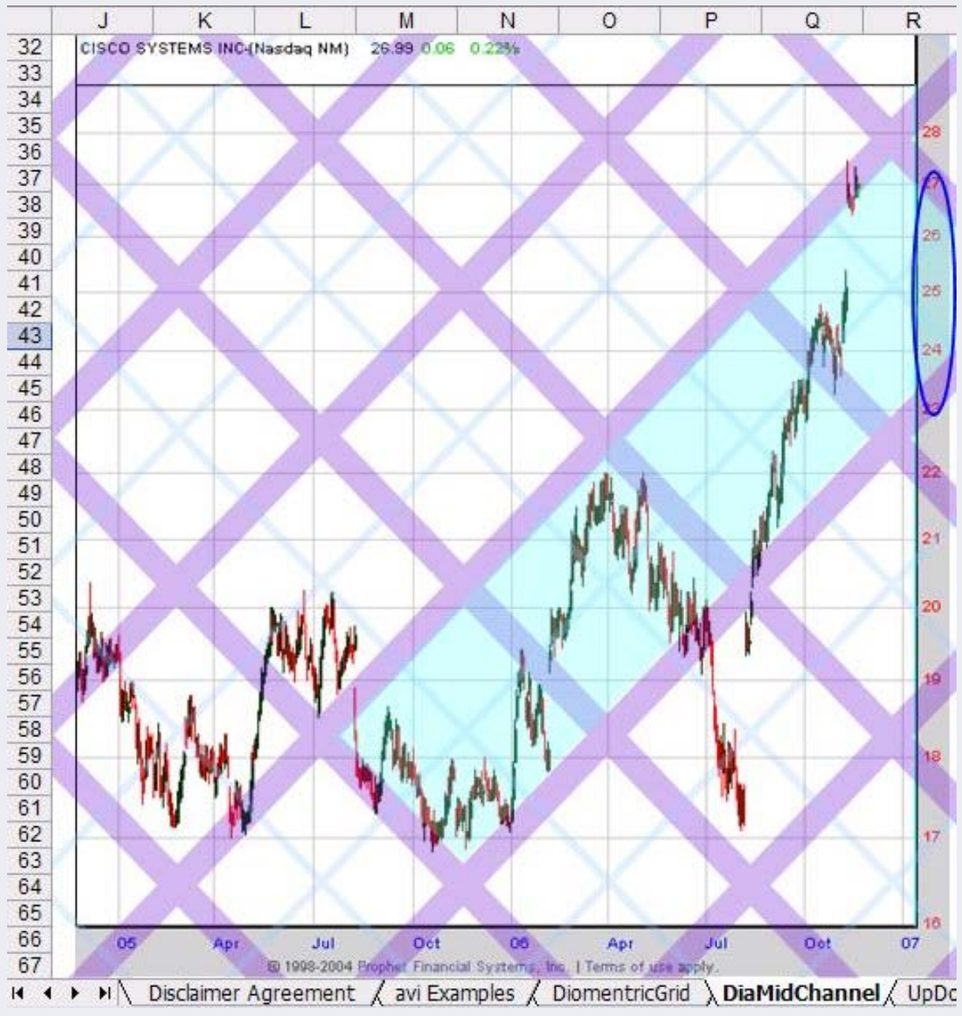
LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
27.25 P	+.65	27.24 P	27.25 Q	455 x 314	50,872,492	26.745	27.32	26.73

YIELD	PE	EPS	DIV	DIV.FREQ	DIV.DATE	52HIGH	52LOW	BETA	SHARES
0.00%	28.68	.95	0	--	N/A	27.44	16.87	1.915	6,086,71...

JAN 07 (64) 100 — 21.45%

.99	33.56%	7.40 P	7.50 C	JAN 07	20	0 I	.05 C	-.02	37.18%
1.00	0.00%	4.90 C	5.00 P	JAN 07	22.5	.05 C	.10 C	-.05	30.10%
.86	22.08%	2.65 C	2.70 C	JAN 07	25	.20 X	.25 C	-.15	23.18%
.52	21.10%	.95 C	1.00 X	JAN 07	27.5	1.00 I	1.05 C	-.50	21.79%
.19	22.03%	.20 C	.30 C	JAN 07	30	2.80 C	2.90 C	-.85	22.63%
.06	25.13%	.05 C	.10 I	JAN 07	32.5	5.20 I	5.30 C	-.97	28.01%

	AV Cost	@Roll	As of 11/16	P&L
Stock	19.60	27.250	27.250	7.650
20P	1.40	0.05		-1.350
22.5/25pV	2.015	0.50		-3.530
25P		0.75	0.25	-0.50
25/27.5pV		1.20	0.8	-0.40
				1.870



fh2000
Newbie
Posts: 9

How to adjust a Slingshot Bear call spread?
« **Reply #5 on:** November 28, 2006, 10:29:00 AM »

Charles,
Thanks for your replies. So, I am currently holding a synthetic Backspread (-10/+20) after the dissection which is a bullish position.

If you don??t mind me asking some more very rudimentary questions regarding your SlingshotHedge mechanism at around option expiration. Here are the original positions and their likely outcomes and actions at expiration:

Position:
Long CSCO 1000 underlying
Long 10 * 20 put
Short 20 * (22.5 / 25) call spread.
Assuming credit of call spread is higher than the cost of puts.

Outcomes at expiration:
1. Stock drops below 20, calls all expire worthless. Puts can be sold with some value. Pocket the credit received earlier. We can then open another Slingshot the next month out.
2. Stock falls between 20 and 22.5. All options expire worthless. Pocket the credit, and open another Slingshot the next month out.
3. Stock falls between 22.5 and 25. Depending on where the stock lands, there might be a gain or loss. But, the whole position can be rolled out to the next month out.
4. Stock rises above 25. This is the tricky part that I am having problems with. I read from the forum and your comments that it would be wise to sell 10 X 25 the upper strike call for a profit first, and leave the Butterfly alone until further movement of the stock. What I am struggling with is, if this is a stock of my core holding and I wish not to sell the stock, how would I close the rest of the positions?

I guess, I could further sell the Butterfly if there is value left, or let it expire worthless. What I have remaining then would be a conversion (+u-c+p). In which case, I will roll the short call and long put out to the next month. And hopefully, the cost to roll the call and put is smaller than the original 10 X 25 call sold?

Please kindly provide feedback.

Ri$k Doctor

How to adjust a Slingshot Bear call spread?
« **Reply #6 on:** November 29, 2006, 09:42:12 AM »

I would add to:

> **Quote**
> 1. Stock drops below 20, calls all expire worthless. Puts can be sold with some value. Pocket the credit received earlier. We can then open another Slingshot the next month out.

The position will suffer a loss. The hedge is done for a credit but the synthetic value is a debit, no different to the purchase of a butterfly plus a call.

> **Quote**
> 2. Stock falls between 20 and 22.5. All options expire worthless. Pocket the credit, and open another Slingshot the next month out.

The position may actually make some money because the value of the butterfly may exceed the synthetic cost. Your original position was a .50 debit so above 20.50 all the way to just below 24.50 would represent profit area potential where the butterfly would be worth at least .50 in that position.

> **Quote**
> 3. 4. Stock rises above 25. This is the tricky part that I am having problems with. I read from the forum and your comments that it would be wise to sell 10 X 25 the
>
> upper strike call for a profit first, and leave the Butterfly alone until further movement of the stock. What I am struggling with is, if this is a stock of my core holding and I wish not to sell the stock, how would I close the rest of the positions?

It sounds like you always would like to have the extra calls, to be in for the ride, in the event of a continued protracted move upwards. The extra calls could be rolled (up or down) depending on cost and risk/reward, support and resistance and appetite according to confort level.

> **Quote**
> I guess, I could further sell the Butterfly if there is value left, or let it expire worthless. What I have remaining then would be a conversion (+u-c+p). In which case, I will roll the short call and long put out to the next month. And hopefully, the cost to roll the call and put is smaller than the original 10 X 25 call sold?

The butterfly aspect, like any other butterfly should be placed in the range of anticipated expiration levels.
The fact that there are embedded conversions to deal with is something that you can easily get used to managing (pin risk and jelly rolls, etc.).

fh2000

How to adjust a Slingshot Bear call spread?

« **Reply #7 on:** January 07, 2007, 11:09:14 AM »

Charles,

A little bit of update of my position. I am still a newbi in options in general, and in Slingshothedge in particular. The only way for me to learn this is to expose myself naked in front of you, I think. :-)

When I started, CSCO was at $22.84. I initially put on a Jan 22.5/25 credit call spread and a Jan 20 Put for protection. I ??rolled up?? the call spread by buying a 22.5/25/27.5 Fly, when

CSCO went passed both of my call strikes.

When CSCO continued moving up, I again rolled up and out of my call credit spread from Jan 25/27.5 to Feb 27.5/30 with 2 diagonal spread orders. I also rolled up my Jan 20 put to Jan 25 Put. By Jan expiry, I will look to roll out my Jan 25 put to Feb put. Not sure what put strike to use at this time. Will see how CSCO is doing at that time.

Today, with CSCO is quoted as $28.47, I have an increase of $5.63 per share, but all the roll-ups and roll-outs have cost me about $4.5, which means my total position has just increased $1.13.

You mentioned in your book that one should be able to retain some 50% to 75% (p. 227) of the stock appreciation with this strategy. I did not get that much. Either I have not put on the initial strikes in the right place/moment, or I have made my adjustments in a wrong timing.

I am continuing on to Feb, and plan to merge with DH collar style as stated in JL Lord's book:
If my 25 put increases in value, I plan to buy more CSCO stocks with that gain, then rehedge.
If CSCO moves up further, I plan to roll up my Feb credit call spread with a FLY.
If CSCO goes flat, I will re-hedge with Slingshot.

Comments and more education are deeply appreciated.

Ri$k Doctor

How to adjust a Slingshot Bear call spread?

« **Reply #8 on:** January 17, 2007, 06:51:48 AM »

Part 1:

> **Quote**
> Today, with CSCO is quoted as $28.47, I have an increase of $5.63 per share, but all the roll-ups and roll-outs have cost me about $4.5, which means my total position has just increased $1.13.
>
> You mentioned in your book that one should be able to retain some 50% to 75% (p. 227) of the stock appreciation with this strategy. I did not get that much. Either I have not put on the initial strikes in the right place/moment, or I have made my adjustments in a wrong timing.

You have done a lot of rolling and experience will help you in the future. Had you not rolled, your 25 calls would have been worth 3.50 when the stock was at 28.47 and with a total synthetic cost of .50 would have put the profit at 3.00 on the protracted up-move giving you over 50% of what you would have made on the naked stock (as mentioned in the book).

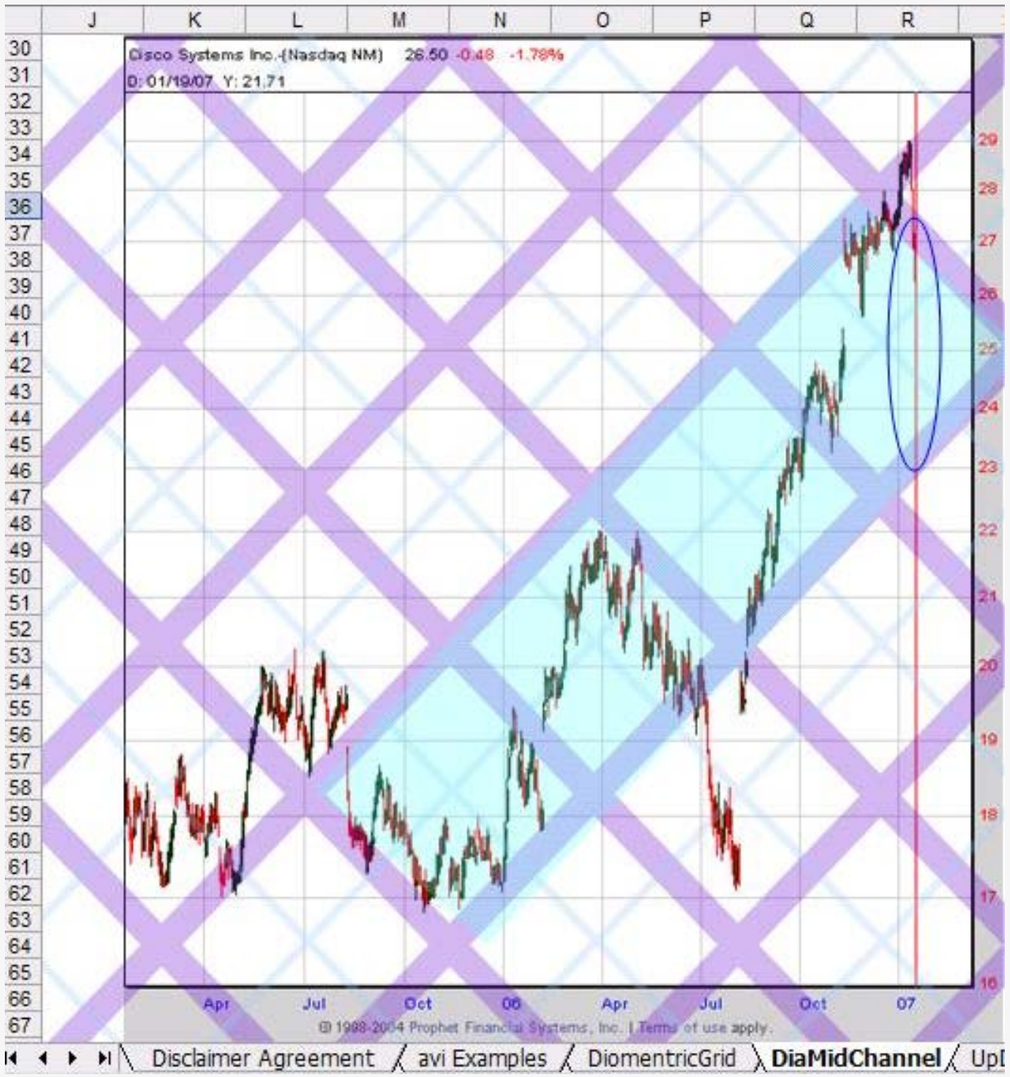
I will examine this a little further and respond again.

Ri$k Doctor

How to adjust a Slingshot Bear call spread?

« **Reply #9 on:** January 18, 2007, 01:12:40 PM »

Part 2:
CSCO closed at 26.45 one day before expiration:



> **Quote**
> I am continuing on to Feb, and plan to merge with DH collar style as stated in JL Lord's book: If my 25 put increases in value, I plan to buy more CSCO stocks with that gain, then rehedge. If CSCO moves up further, I plan to roll up my Feb credit call spread with a FLY.
> If CSCO goes flat, I will re-hedge with Slingshot.

Please inform me what a "DH" Collar is.

Rolling the vertical becomes necessary if there is the anticipation that the stock will settle near to the credit spread's upper strike (25 in your initial construct), in which case you normally roll to the next month using the same strikes.

Rolling up, just to roll up, to play keep away, has the effect of adding to your cost and if done over and over again can result in no possible way to win. For example, an unrolled 22.50/25 spread going for 2.00 has only .50 more to lose. However, if you roll that up by purcasing the butterflu for say .75 not only reduces your cost by .75 but also gives you a new credit spread that may lose another 1.25 on a continued rally.

The idea about using a credit spread in a slingshot as opposed to a short call in a collar (where gain is limited) is that the (twice as many) credit spreasd stop losing at some point and the synthetic call (the stock plus the protective put) can go unhindered on to victory.

Ri$k Doctor

How to adjust a Slingshot Bear call spread?

« **Reply #10 on:** March 08, 2007, 02:45:33 PM »

A question related to this was asked after "Slingshot Strategy -- The Movie" and addressed in "OOs and AHHs" forum post covered on the next 4 pages.

BTW: Here is more on the DH Collar, in this PDF.

arp

OOs and AHHs
« **on:** March 03, 2007, 11:29:05 AM »

Charles,

First I wanted to thank you for the great presentation. I'm looking forward to the next one.

You mentioned something early on which caught my attention. Since I'm mainly in the OOs camp (Option Only Strategies), what did you mean by saying that the OOs should adopt the consciousness of the AHHs? I can think of a few things, but I wanted to hear your thoughts on that.

Thanks
Ali

Ri$k Doctor

OOs and AHHs
« **Reply #1 on:** March 03, 2007, 04:11:00 PM »

As an Options Only Strategist/Speculator (OOs), wouldn't you be curious to know what hedgers were up to? -- When they were motivated to lift hedges, roll hedges or what options they think are over valued or undervalued? In other words, if it is a good time for stockholders to bear collar their position, would it be a good time to initiate a bear spread? If they were going to calendar hedge (by selling a call and buying the same strike put in a deferred month) might it be a good time to put on the real calendar? The idea is to raise your consciousness to be aware of what all is going on in the market. So ask yourself, "if I owned the stock and the directions seemed iffy, what would I do to hedge given all the available data (IVs, time to go etc.) how would I hedge? -- What would I turn my long stock profile into?" A good hedger puts himself into the shoes (consciousness) of the OOs player.

OOs and AHHs
« **Reply #2 on:** March 04, 2007, 06:45:41 PM »

Thanks Charles.

Now let's say I'm bullish on a stock, and I think it will move its way up from $20 to $40 over the next 6 to 12 months. I'm <u>not</u> expecting a straight up move. I think it will most likely oscillate there, with periodic pullback and consolidation periods, some last as long as month or two. A pure stock trader might just buy the stock and hold it until then; or at most use some sort of a trailing stop to protect gains.

Since we want to take advantage of options, what strategy would you say would work best for an Options Only Strategist/Speculator (OOs)? Specially if we were interested in:
a) Locking in profits as the stock moved higher to protect gains,
b) Keeping short-term directional speculations to the minimum, and
c) Maintaining a limited risk configuration & not increasing risk during the whole process

Here are some ideas running around in my head. Please let me know what you think.

1. Use front month bull verticals & continue to roll them higher as stock advances and verticals get nearly maximized. Nice and simple, but I would have to switch to neutral or short premium verticals during consolidation to hedge or benefit from time decay. And doing that, I'll end up increase possible downside risk, while limiting upside, & end up regretting it if the stock takes off North. It also causes me to 'speculate' about short-term market moves, which I'm trying to avoid.

2. Use a near-term (30-45 day) slingshot and adjust as stock moves higher to lock in gains. This is better. I'm good with theta, and not limiting upside. But I'm not expecting the stock to make explosive moves up past my kicker call either. It could happen, but low probability of happening. How would I manage such 'slow' advances in stock, which end up killing the kicker call? One solution is to roll the short call verticals to the next month. Is this the best way to deal with slow movers?

3. Use a Slingshot with say 6 to 12 months to expiration. Relax & make fewer adjustments, let the trade do the work. Only adjust where there is enough profits to protect. If I use this approach, what if implied volatility is high and I expecting a drop in IV, so I'm not happy about the amount of long vega I have?

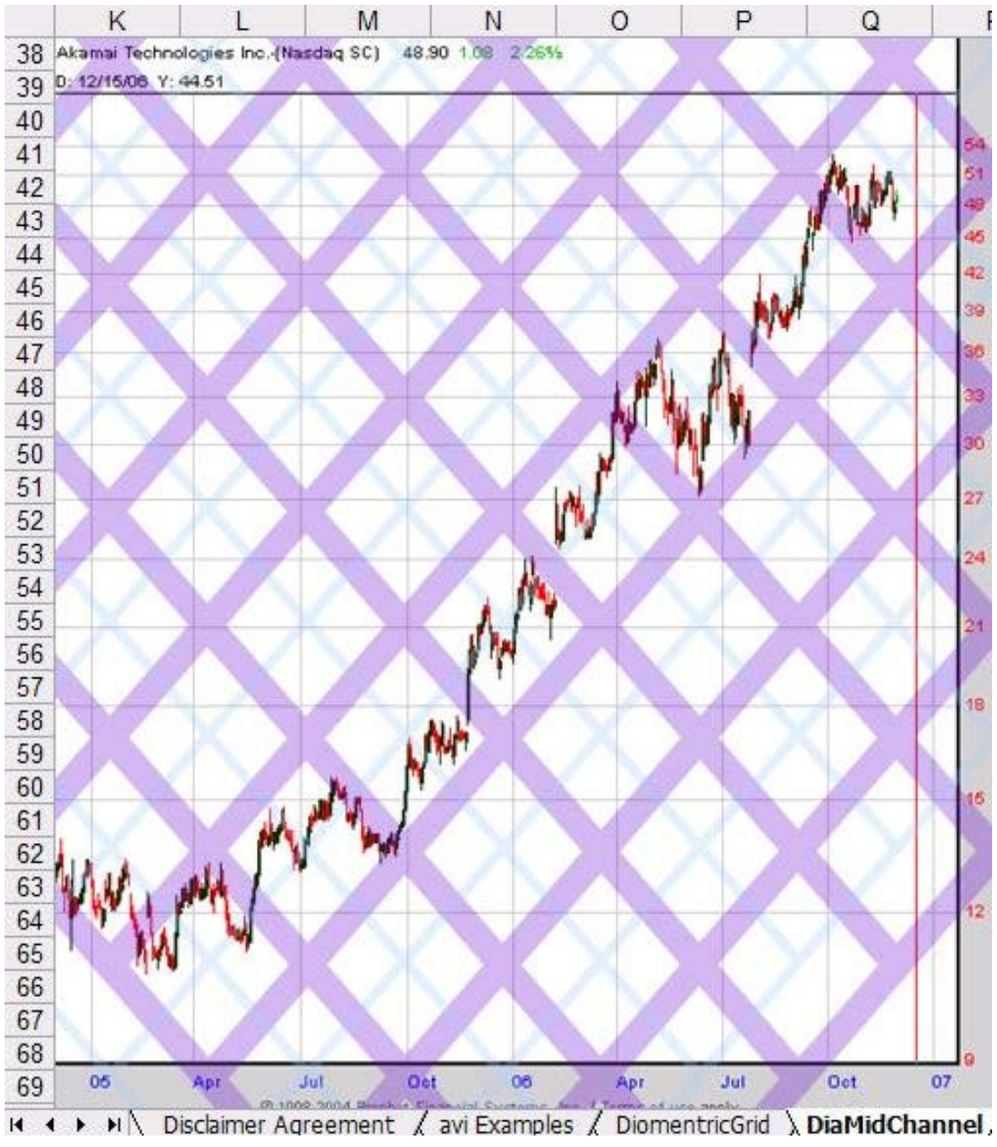
4. How about front-month butterfly, with kicker call being the longer-term options? Or the other way: buy an ITM longer-term option and selling 2 x near-month ATM/OTM call verticals? This will reduce my long vega, (still long vega however), but does it make adjustments more complicated (slippage and commission becoming issues)?

Thanks

Below is a chart of AKAM and in a similar period the stock did just that (went from 20 to 40).

Obviously, the stock is going to zig zag on its way. For the purpose of this discussion, let's call the up moves the "zigs" and the retracement corrections along the way, the "zags".

Certainly it would be advantageous to identify the trend channel, like I attempted with Diamonetrics:



You can see in hind site that there were places that bull spreads would have taken advantage to the Zigs as long as they were rolled up (protecting gains) before the Zags. There was the period between April and July that was sideways that calendars or butterflies would have been profitable. Kickers would have also come in handy at the points where the stocked gapped higher. It is simple to maintain a limited risk profile throughout the process but I think there are opportunities for short-term speculations within the bigger picture for optimizing profits.

Quote

1. Use front month bull verticals & continue to roll them higher as stock advances and verticals get nearly maximized. Nice and simple, but I would have to switch to neutral or short premium verticals during consolidation to hedge or benefit from time decay. And doing that, I'll end up increase possible downside risk, while limiting upside, & end up regretting it if the stock takes off north. It also cause me to 'speculate' about short-term market moves, which I'm trying to avoid.

Depending on IV levels;

and where the underlying is in the channel (Bottom of channel -- bullish...Top of the channel -- temporarily bearish in the bull trend) at any given time will determine whether it is worth speculating with other than an ATM bull spread (ATM Bull Collar if own stock) that is premium neutral. If IV low then calendarize the long option. If consolidating and IV is low -- straight ATM calendar or lean toward the next higher strike to maintain bullish delta.

Quote

2. Use a near-term (30-45 day) slingshot and adjust as stock moves higher to lock gains. This is better. I'm good with theta, and not limiting upside. But I'm not expecting the stock to make explosive moves up past my kicker call either. It could happen, but low probability of happening. How would I manage such 'slow' advances in stock, which end up killing the kicker call? One solution is to roll the short call verticals to the next month. Is this the best way to deal with slow movers?

Best chance for the kicker is at the low end of the channel for big bounce possibilities. At the upper end of the channel there is less of a chance for the kicker to kick in (unless the underlying starts to have a hyperbolic move). Rolling the vertical becomes necessary when the stock lingers for too long between the upper two strikes and time is running out.

Quote

3. Use a Slingshot with say 6 to 12 months to expiration. Relax & make fewer adjustments, let the trade do the work. Only adjust where there is enough profits to protect. If I use this approach, what if implied volatility is high and I expecting a drop in IV, so I'm not happy about the amount of long vega I have?

Long dated Slingshots can be costly for the extra kicker especially when the IV is high, however, the butterfly part is cheap. You may prefer to have the kickers be shorter dated and acquire new ones as the old ones expire.

Quote

4. How about front-month butterfly, with kicker call being the longer-term options? Or the other way: buy an ITM longer-term option and selling 2 x near-month ATM/OTM call verticals? This will reduce my long vega, (still long vega however), but does it make adjustments more complicated (slippage and commission becoming issues)?

It simply means that you have a calendar embedded at the lower strike which is not a "bullish" thing to have. It may be better (if IV is low) to have the longer dated options at the 'kicker' strike. [/color]

Slippage can be reduced by trading in liquid OTM options as much as possible. Commissions are becoming less and less of a factor but even so you want to identify the easiest way to get from your existing position to the desired adjusted position with the fewest amount of contracts.

Ri$k Doctor

OOs and AHHs

« **Reply #4 on:** March 06, 2007, 07:57:18 PM »

A question was asked after the recording:**"What adjustment or rolling can I do if the stock goes up high enough that my "Kicker" goes ITM while I am still bullish and I want to protect some of my gains?"**
Here is one answer and it is a follow on from the CSCO discussion http://www.riskdoctor.com/cgi-bin/forum/ikonboard.cgi?act=ST;f=1;t=576 where a guy originally did the 20/22.5/25 Slingshot and the stock rallied big (went over 29). The call 'kicker' was the 25 strike that went ITM. So why not sell the 27.50/30 call vertical spread 20 times (i.e. Slingshot the extra 25 call).
That creates another butterfly and a new kicker at 30.

I am often asked, what do you do with the nearly worthless butterfly? Leave it alone, probably, if it is too cheap to sell. It could come back to some descent value to salvage later.
Here is the dissection of the new trades and dissections with the yellow highlight:

	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	T	V	X
11		10	Raw Calls	Total Net Contracts			Raw Puts									10	Net Contracts	
12																		
13				PivotK	2500											PivotK	2500	
14			Month	JAN	10			Inc Adj	Y							JAN		
15			Raw Position									Butterfly Dissector					Work Sheet	
16	nC	rC	Adj	Cur	K	Cur	Adj	rP	nP	K		Bfly1	Bfly2	Bfly3	K	C	K	P
36					1750					1750					1750		1750	
37					2000	10		10	10	2000					2000		2000	
38		(20)		(20)	2250				(20)	2250	10		10		2250		2250	
39	10	20		20	2500				10	2500					2500	10	2500	
40	(20)	(20)	(20)		2750					2750	10		10		2750		2750	
41	20	20	20		3000					3000					3000	10	3000	
59	10	10		10	Net					Net	20				Net	10	Net	

arp

OOs and AHHs

« **Reply #5 on:** March 08, 2007, 07:49:38 PM »

Thanks for the reply Charles. It makes a lot of sense. It's a very "clean" way of locking-in profit while maintaining the bullish bias, and having the benefit of an ATM fly, just in case market goes sideways. It's beautiful.

> **Quote**
> It is simple to maintain a limited risk profile throughout the process but I think there are opportunities for short-term speculations within the bigger picture for optimizing profits.

I just wanted to clarify that I'm not against short-term speculation. I do it all the time. However, I like to diversify my trades across various timeframes. Therefore I like to have long-term trades as well as short-term ones.

In the above case, I was giving an example of a trading system that gives me buy and sell signals based on weekly charts. It may be in the market for months, attempting to catch the longer-term trends. So I'm willing to sacrifice additional potential profits from short-term speculation in-order to stay true to my long-term system; and at the same time, do better than the stock trader.

I know that short-term speculation can enhance the returns, but as you know, the flip-side is that if you're wrong a couple of times, you can damage the eventual long-term result that you were after in the first place.

- Ali

Ri$k Doctor

OOs and AHHs

« **Reply #6 on:** March 09, 2007, 03:35:36 PM »

OK Ali. When you are considering a trade (long-term or otherwise) try running it by me and I will give you a second opinion to see if the strategy is consistent with your opinion, or perhaps a better alternative.

Luthervickie

Is Financial Freedom Really Possible?

« **on:** January 30, 2007, 06:01:21 PM »

Could you answer a question I've always wanted to ask someone knowledgeable in investing. If you had a son or daughter interested in making money through investing, "Would you tell them to focus on learning about buying/selling options, buying/selling stocks or buying/selling futures?"

I do a lot of reading, but don't ever seem to feel comfortable about what to really do. You mentioned all the folks trying to sell you some strategy information on the audio I listened to yesterday and you are so correct. Everyone is selling something but no one really ever can tell you when to buy and sell anything with a high level of success that's I've seen.

Somehow the winners, get to where they can figure out what to do without spending 12 hours a day doing it (at least that's my perception). I spend a lot of time reading a lot of stuff, but I'm still scared to make a move (if you know what I mean), maybe you felt that way earlier in your career.

Charles, how do you ever get to the point where you can be confident and successful and still hold down a full time job without going nuts? The years are rolling by and I know I've got to do something or I'll be working at 90yrs old, I'm just trying to figure out how to be the most productive.

Thank you for what you do,
Luther

Ri$k Doctor

Is Financial Freedom Really Possible?

« **Reply #1 on:** February 05, 2007, 02:22:29 PM »

Yes, I would encourage anyone to trade if they take the time to learn it and become disciplined. Why not study all of them? Then gravitate to where you seem to enjoy it the most. With stocks and futures you can study the fundamentals and/or technical analysis to learn about direction or non direction. Options then can be applied accordingly so it does help to learn as much as you can. There are only minor differences between stocks and futures options.

Balance between job and trading is a difficult hurdle, especially with day trading. Options is more for 'week' or 'month' trading and there are lots of positions, such as butterflies, calendars, straddle/strangle swaps and credit spreads, that like time to go by and are more conducive to managing while having a full time job.

There is no automatic free money and it takes a bit of time to learn the nuances/behavior of options and then to develop your own style based upon what comes naturally to you.

It is hard work to trade profitably, consistently. Be careful!

Luthervickie

Is Financial Freedom Really Possible?

« **Reply #2 on:** February 06, 2007, 09:45:42 PM »

Thanks for the reply.
I agree it takes a lot of work, and I', willing to work but it does not seem to be real productive or I'm thinking I should feel confident about what to do by now?
Based on your experience and the success you've seen from folks you've helped trained and if you were to lay out a training plan for your i.e. son that just graduated from college, what would be Step 1, Step 2, Step 3 etc. and what would be a realistic time before you would expect him to be confident to start making actual option trades.
I'm just throwing this out, 1) would you tell him to pick 3 or 4 stocks, look closely over the technical's until he thought he had an understanding of support and resistance and trade basic options from there? 2) or would you say, Son, don't make any trades until you understand all the different types of strategies, ie condors, butterfly's etc (I've seen the names of some of these advanced strategies but I don't understand the thought process behind those strategies).
In a nutshell, you want him to get up to speed as quick as possible and therefore you tell him, "this is what you must do in order to be successful in generating income from options without losing your shirt and here is a realistic timetable you can plan on?"
Charles, this is big time hypothetical because I'm sure you'd have been teaching your son all along as he was growing up. But I'm sure you get where I'm coming from.
thanks, Luther

Ri$k Doctor

Is Financial Freedom Really Possible?
« **Reply #3 on:** March 01, 2007, 04:46:25 PM »

You've pretty much got it.

I would have anyone interested in options:

1. Learn what you can about the basics.

2. Try my book. Reading Assignment:

> **Suggested Reading Assignment**
> Prerequisite Understanding:
> Long and Short Calls
> Long and Short Put
> Bull and Bear Spreads
> Then move on to:
> Download the free Excerpt of "Options Trading: The Hidden Reality".
> **OTTHRLITE.pdf**
> Read all of Chapter 1 (the major hurdle to overcome) in order to ascend into the consciousness of synthetics.
> If you understand Chapter 1, buy the book and continue below. If you don't understand Chapter 1, read it again and again and again or hang it up and move on to happier hobbies and save your
> money.
> Read Chapter 2, starting at page 38 to the end, introducing the concept of adjusting.
> Work through the Appendix to master the concept of dissection of the Option Metamorphosis from Chapter 2.
> Read Chapter 3 if curious about the Greeks but not really necessary for a while.
> Read Chapter 4 through page 110 not to necessarily trade straddles and strangles but to teach about the curvature and demystify Gamma Scalping.
> Read Chapter 5 on verticals up to page 135, is essential as a predominate strategy (including bull and bear collaring) leading to the consciousness of butterflies and condors.
> Read Chapter 6 for Butterflies. They can skip the Greeks section from 154 to 161.
> Read Chapter 7 Gets more advanced with Calendars, Diagonals and Straddle Strangle Swaps but I think they should read up to the top of page 188.
> Read Chapter 8 is recommended for insomniacs to help them fall asleep.
> Read Chapter 9 on Hybrid hedging for those who gravitate to collaring and butterflies.
> Read Chapter 10 to express the understanding of Skews for advanced students.
> Unfortunately,if you already know the basics and cannot get through Chapter 1 then perhaps Options are nothing to get serious about. There are much better things to do with your precious time.

3. Read and mix it up (ask a lot of questions) in the Ri$k Doctor Forums until you fully grasp the concepts.

4. Learn vicariously though the other participants' experiences and paper trading with verticals, calendars and butterflies.

5. Trade two lots, like you said, in 3 or 4 underlyings where one or so is aiming up, one or so is aiming down and one or so is aiming sideways. Put me on retainer for 1 and 2 minute phone calls for a quick second opinion when making a trade or adjustment (this is expensive if there is a lot of chit chat but cheap if we cut to the chase and hang up).

6. Do this for a few expirations to let the market teach you 100 times what I have tried to teach you.

7. If you are holding your own, gravitating to it all, loving it, keep doing and learning. If you are making money, increase your size a bit and so on and on and on.

hlp

Ratio Spreads
« **on:** February 26, 2007, 02:51:48 PM »

Are OTM ratio spreads good strategy for selling premium on indexes eg NDX or SPX. Greatly appreciate any comments on OTM Ratio Spreads (buy 2 & sell 3 OTM calls or puts).

Also when and what months should I initiate?

Also appreciate any follow up strategy if trade moves in wrong direction?

bb35360

Ratio Spreads
« **Reply #1 on:** February 26, 2007, 06:17:42 PM »

It's a good strategy if you're okay with being short naked options.
And if you're okay with being short a time bomb, you're best doing it in the front month. Less number of days you need to pray.
ST

hlp

Ratio Spreads
« **Reply #2 on:** February 27, 2007, 07:50:20 AM »

Thx bb - which covered strategy is safer for selling premium?

bb35360

Ratio Spreads
« **Reply #3 on:** February 27, 2007, 02:00:04 PM »

hlp,
Hopefully you didn't sell any put ratio spreads yesterday. That would have been the fastest portfolio explosion ever.

Charles' entire book goes over safe ways to sell premium. Rather than a ratio spread, here would be my suggestions if you are trying to "trap" the underlying within a range and keep negative vegas (using SPY given easier to figure out pricing compared to SPX):

1) ratioed butterfly would give you a safer way to get into a ratio trade, albeit getting a juicy credit usually would be difficult. Interestingly, with the spike in vols today, getting the Long SPY 134/137/140 3:2:1 Mar Spread could be had for 0.05cr to even. Around 4.5 point range would give you a good gain, and it would take a close another 3% lower to give losses at expiration.

2) regular otm butterfly would give you all of the above for much smaller max loss potential, and still keep the chance for a huge gain if your range prediction is accurate. eg: Long SPY 134/137/140 Mar bfly for 0.55 dbt.

It's hard to get rich quick with these trades, but you sure won't go broke.
ST

Ri$k Doctor

Ratio Spreads
« **Reply #4 on:** February 27, 2007, 02:22:52 PM »

Good answers ST.

hlp

Ratio Spreads

« **Reply #5 on:** February 27, 2007, 11:06:00 PM »

Thanks a lot for your help ST.

I am new to this terminology - Please explain "Long SPY 134/137/140 3:2:1 Mar Spread could be had for 0.05cr to even. Around 4.5 point range would give you a good gain, and it would take a close another 3% lower to give losses at expiration".

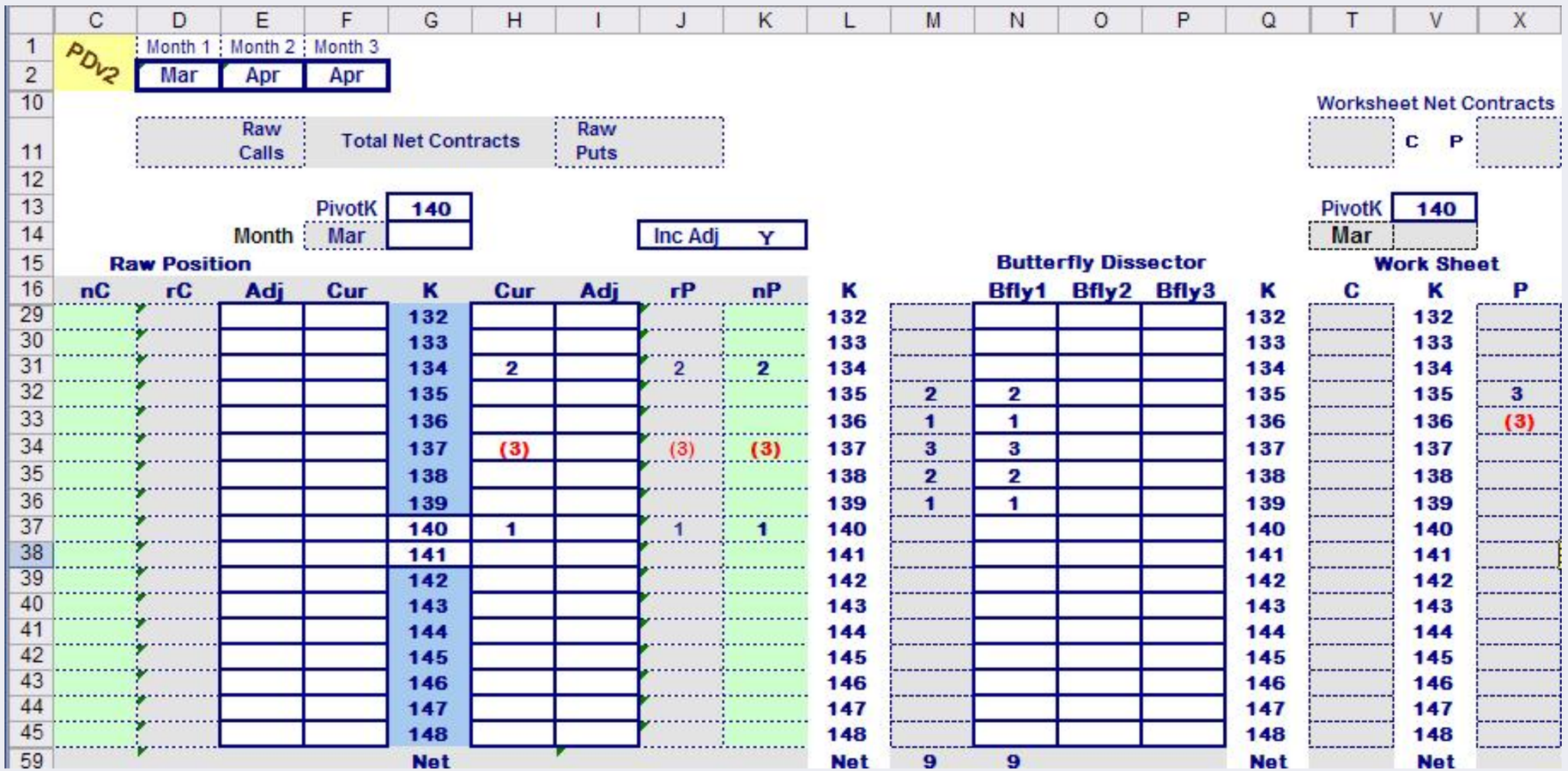
What is the best way to predict range?

Ri$k Doctor

Ratio Spreads

« **Reply #6 on:** February 28, 2007, 07:35:33 AM »

Sorry, I failed to see that. Perhaps ST meant 1:3:2? If that is the case, the short put credit spread is financing the purchase of all the butterflies to some degree if this is done for a small debit or financing them completely if done for even money. Obviously, if there is done for a credit, then these butterflies can be owned for less than free. No matter what the transacted price, there is the unfortunate potential liability of the credit spread going to full value in a huge down move while the butterflies go out worthless. The good news is that it is all limited risk.



bb35360

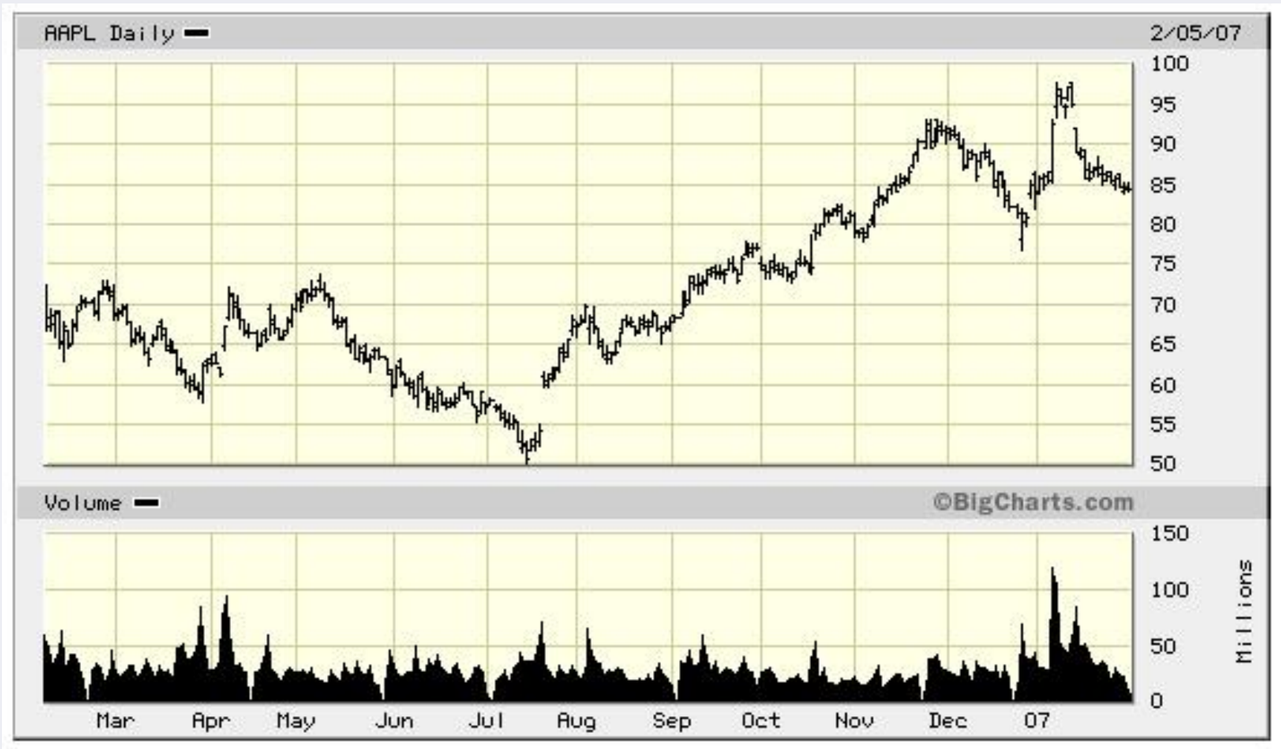
New AAPL trade

« **on:** January 31, 2007, 12:34:42 PM »

Underlying pulled back, IV down to yearly lows after Mac World and Earnings over. No scheduled news for next several weeks.
My trade is to play for sideways and increase in IV going into the next earnings cycle in April.
Long 70/80/90/100 Mar/Apr Double Diagonal @ 1.00-1.10 credit.

Adjustment points:
If underlying convincingly breaks support/resistance levels at 75 and 100, will consider closing position.
If position losing 5.00 will consider closing position.
If underlying stays within 75-95 range by MAR expiration, will consider either taking profits or rolling into APR iron condor depending on my outlook at that time. If significant vega gains will consider booking profits as well.

ST



Ri$k Doctor

New AAPL trade

« **Reply #1 on:** February 05, 2007, 07:50:36 AM »

Looks good to me. The strategy you have chosen is warranted and supported by all your reasoning.

	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	T	V	X	Y	Z	AA
1	PDv2	Month 1:	Month 2:	Month 3																	
2		MAR	APR	MAY																	
10																Worksheet Net Contracts					
11		Raw Calls		Total Net Contracts		Raw Puts										C	P				
12																					
13				PivotK	80											PivotK	80				
14			Month	MAR				Inc Adj	Y							MAR					
15		Raw Position									Butterfly Dissector					Work Sheet					
16		nC	rC	Adj	Cur	K	Cur	Adj	rP	nP	K		Bflg1	Bflg2	Bflg3	K	C	K	P		
36						70					70					70		70			
37						80	(10)		(10)	(10)	80		10			80		80			
38		(10)	(10)		(10)	90					90		10			90		90			
39						100					100					100		100			
59		(10)	(10)		(10)	Net	(10)		(10)	(10)	Net		20			Net		Net			
60																					
61				PivotK	80											PivotK	80			Calendar Spread	
62			Month	APR				Inc Adj	Y							APR				Dissector	
63		Raw Position									Butterfly Dissector					Work Sheet				Month	
64		nC	rC	Adj	Cur	K	Cur	Adj	rP	nP	K		Bflg1	Bflg2	Bflg3	K	C	K	P	C	P
84						70	10		10	10	70					70		70		70	10
85						80					80					80		80		80	
86						90					90					90		90		90	
87		10	10		10	100					100					100		100		100	10
107		10	10		10	Net	10		10	10	Net					Net		Net			

bb35360

New AAPL trade

« **Reply #2 on:** February 20, 2007, 10:19:54 PM »

Interesting announcement by Apple today. Expected earnings announcement was 3rd week of April, which explained the previous Apr IV of 36-37% compared to Mar IV 30%. On tuesday they announced earnings release date will be Apr 25th, after Apr expiration. So Apr IV plummeted to 30%, and Jul IV at 34%.

Current options I am considering for this position:

1) Exit entire position for gain of 0.55 given that my expectation of Apr IV rising will likely not happen.

2) Roll my Mar short 80/90 strangle to Apr for 2.75 (was 3.50 on monday) which would fit in with my new expectation of sideways movement of underlying through Apr expiration. This roll is much earlier than when I would usually do so, but a roll >3.00 is unlikely if the underlying stays within the narrow range it has been in the last 2 weeks.

3) Let some more time run down and see if a better roll into Apr is possible. Aiming for >3.00, but unless the underlying moves toward one of my short strikes this seems unlikely given Apr volatility now.

4) If I can't get a good roll into Apr, either exit the short Mar strangle when cheaper or let it expire, and keep the cheap long Apr strangle.

At this time I am favoring the watchful waiting approach. ST

Ri$k Doctor

New AAPL trade

« **Reply #3 on:** February 25, 2007, 01:17:19 PM »

You could consider to harvest just the 90 Calendar for 2.00 of the 2.75 and wait on rolling the 80s upon a retracement if you believe that you will get one.

AAPL APPLE INC Easy to Borrow NASDAQ Volume Open Interest 5

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
89.07	-.44	88.19 Q	89.90 Q	2 x 1	18,512,199	89.16	90.34	88.85

TRADE GRID SYMBOLS

OPTIONS Single Composite

CALLS VOLUME	OPEN.INT	BID X	ASK X	EXP	STRIKE	BID X	ASK X	PUTS VOLUME	OPEN.INT
MAR 07 (19) 100									29.68%
4,998	7,128	9.40 C	9.60 C	MAR 07	80	.15 I	.20 I	4,746	28,225
7,074	31,825	5.00 X	5.10 C	MAR 07	85	.65 C	.75 C	6,640	32,518
14,199	63,517	1.75 X	1.80 C	MAR 07	90	2.50 C	2.55 I	11,535	12,632
4,269	36,470	.45 C	.50 C	MAR 07	95	6.10 C	6.20 X	965	4,840
2,056	10,243	.10 X	.15 C	MAR 07	100	10.90 X	11.10 P	87	109
APR 07 (54) 100									30.21%
996	22,325	10.50 P	10.70 C	APR 07	80	.85 X	.90 I	3,639	33,147
1,082	40,127	6.60 C	6.80 C	APR 07	85	1.95 C	2.00 X	3,842	52,241
5,558	67,784	3.70 C	3.80 P	APR 07	90	4.00 C	4.10 I	4,072	29,874
2,474	67,807	1.85 I	1.90 I	APR 07	95	7.10 X	7.30 C	269	19,907
1,679	67,876	.85 C	.90 I	APR 07	100	11.20 X	11.40 C	60	4,818
JUL 07 (145) 100									34.42%

newboyo

DO, reverse conversion confusion

« **on:** January 31, 2007, 08:04:46 AM »

Dear all,

Request advice for the following trade -

1. I am short 100 strike march conversion on DO @102.75, i.e -U-P+C.
2. when DO declared a special dividend of $4- (record date 14 Feb), I bought underlying and sold Feb 80 call (expiry date 16 Feb), net debit 79.40. Rationale, to avoid paying $4- on my short underlying and to reinstate the short stock position.
3. in case my short Feb 80 call is assigned I think I am ok. In case, my short Feb 80 call is not assigned, could you please help me work out the breakeven price for DO at which I will need to sell.

rgds,

newboyo

Ri$k Doctor

DO, reverse conversion confusion

« **Reply #1 on:** February 04, 2007, 03:12:20 PM »

Diamond Offshore Drilling, Inc. Declares Cash Dividend of $0.125 Per Share
Tuesday January 30, 4:51 pm ET

HOUSTON--(BUSINESS WIRE)--Diamond Offshore Drilling, Inc. (NYSE:DO - News) announced today that its Board of Directors has declared a quarterly cash dividend of $0.125 per share of common stock, payable on March 1, 2007 to shareholders of record on February 14, 2007.

In addition, the Board declared a special cash dividend of $4.00 per share of common stock, payable on March 1, 2007 to shareholders of record on February 14, 2007.

> **Quote**
> 1. I have the DO MAR 100 Reversal @102.75, i.e -U-P+C.

I think that you mean that you executed this all for what we (ex) market makers would call a 2.75 credit: Bought the K+C and sold the U+P) -- The K was not bought but that will be the price paid upon assignment).

The damage has already been inflicted. There is no defense except to get out if MMs will give you a decent price for the whole MAR package. The 2.75 credit has turned into the almost 4.125 credit (anything less will be a savings) that will be the dividend. In the image below you have a snapshot of prices (average between bid/ask) today with the yellow background. The blue background displays the theoretical values using IVolatility.com's calculator (IVs used in the first column). The green background displays the differences between theoretical and what is available in the market. The market seems to be discounting the conversions on an average of .20 as if to covering short stock is in demand.

	A	B	D	E	F	G	H	I	J	M
1			Calls	85.32	Puts		Current Average Price			
2		Carry	Avg	March	Avg	pBfly	Conversion		Reversal	Box
3		0.35	25.15	60	0.18		(0.35)		0.35	5.25
4		0.39	20.10	65	0.38	0.22	(0.60)		0.60	5.22
5		0.42	15.30	70	0.80	0.53	(0.82)		0.82	5.90
6		0.45	10.35	75	1.75	0.60	(1.72)		1.72	6.10
7		0.48	5.80	80	3.30	0.90	(2.82)		2.82	5.67
8		0.51	2.58	85	5.75	1.30	(3.49)		3.49	5.33
9		0.54	1.00	90	9.50	0.65	(3.82)		3.82	5.05
10		0.57	0.35	95	13.90	0.55	(3.87)		3.87	5.17
11		0.60	0.13	100	18.85	-0.05	(4.04)		4.04	4.95
12		0.63	0.08	105	23.75		(3.99)		3.99	
13			Calls	85.32	Puts		Theoretical Price			40 Days
14	IV	Carry	TV	March	TV	pBfly	Conversion		Reversal	Box
15	55	0.35	25.40	60	0.23		(0.15)		0.15	5.11
16	47	0.39	20.41	65	0.35	0.35	(0.26)		0.26	5.45
17	44	0.42	15.43	70	0.82	0.50	(0.71)	IVolatility.com	0.71	5.82
18	42	0.45	10.58	75	1.79	0.31	(1.53)	Calculator	1.53	5.86
19	36	0.48	6.00	80	3.07	1.22	(2.39)		2.39	5.90
20	33	0.51	2.60	85	5.57	1.38	(3.29)		3.29	5.40
21	34	0.54	1.08	90	9.45	0.57	(3.69)		3.69	5.12
22	34	0.57	0.41	95	13.90	0.36	(3.81)		3.81	5.07
23	34	0.60	0.15	100	18.71	0.15	(3.88)		3.88	5.06
24	34	0.63	0.05	105	23.67		(3.94)		3.94	
25			C TV-	85.32	P TV-		AVG minus Theo Price			Box
26			AVG	March	AVG		Conversion		Reversal	Diffs
27			(0.25)	60	(0.05)	(0.13)	(0.20)		0.20	0.14
28			(0.31)	65	0.03	0.03	(0.34)	ITM Avg	0.34	(0.23)
29			(0.13)	70	(0.02)	0.29	(0.11)	0.25	0.11	0.08
30			(0.23)	75	(0.04)	(0.32)	(0.19)	Off	0.19	0.24
31			(0.20)	80	0.23	(0.08)	(0.43)		0.43	(0.23)
32			(0.02)	85	0.18	0.08	(0.20)		0.20	(0.07)
33			(0.08)	90	0.05	0.19	(0.13)		0.13	(0.07)
34			(0.06)	95	0.00	(0.20)	(0.06)	OTM Avg	0.06	0.10
35			(0.02)	100	0.14	0.00	(0.16)	0.14	0.16	(0.11)
36			0.03	105	0.08		(0.05)	Off	0.05	

Quote

2. when DO declared a special dividend of $4- (record date 14 Feb, payable March 1st), I bought underlying and sold Feb 80 call (expiry date 16 Feb), net debit 79.40. Rationale, to avoid paying $4- on my short underlying and to reinstate the short stock position.

That would be the FEB 80 BuyWrite (synthetic short FEB 80 Put) for a transaction price of .60 Credit Paid 79.40 but get 80 upon an assignment. It looks like your MAR reversal would get its lost money back with a $20 rally judging by the value of the 80 Reversal going for a similar price to your execution of the 100 (with $20 higher your 100 strike options will look similar to the 80s). Why? Because the exercise for the dividend will be in jeopardy as the put may not become cheaper than the dividend minus the remaining carry). So you could say that your MAR position is bullish. The FEB position is a waste of time and adds the naked short put element (also bullish and definitely not a hedge for the MAR -- adding to the problem -- take it off. It is valued at a scratch: Closing Values for February 5th: 84.20 and 4.50 (puts are 1.87 so FEB Conversions also in demand).

Quote

3. in case my short Feb 80 call is assigned I think I am ok. In case, my short Feb 80 call is not assigned, could you please help me work out the break-even price for DO at which I will need to sell.---net debit 79.40.

		Calls	84.20	Puts	Theoretical Price		
IV	Carry	TV	FEB	TV	Conversion	IVolatility.com Calculator	Reversal
36	0.11	4.69	80	1.87	(2.50)		2.50

You will be assigned if the 80 put is trading less than 4.125, the dividend amount (less the remaining carry which is almost nothing). If not assigned, by expiration your break-even would be 79.40 for FEB. My guess is; right after the record date of FEB 14, you will be assigned on your MAR 100 puts because the calls will be trading for less than carry.

newboyo

DO, reverse conversion confusion
« **Reply #2 on:** February 13, 2007, 07:20:55 AM »

Hi Charles,
Just to let you know-- you were exactly right. I've just been assigned on my short Mar put.

next step - sell a jun 80 call?? so that i get out at an effective rate of 86.40??

rgds

newboyo

Ri$k Doctor

DO, reverse conversion confusion
« **Reply #3 on:** February 14, 2007, 09:01:43 AM »

JUN? Why do you want to continue to play this stock? Are you adjusting for adjusting sake? Are you bearish? If you had no position would you be excited to initiate the -10 JUN 80C (6.00ish) /+10 MAR 100C (.05ish) Diagonal for a 6.00ish credit? This also would be very margin intensive. If not, move on to something more tradable.

DO | DIAMOND OFFS... Easy to Borrow | Volume | Open Interest | 5

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
79.55 Q	-.33	79.55 C	79.57 P	3 x 1	1,522,826	80.75	80.77	79.30

TRADE GRID | SYMBOLS

OPTIONS | Single | Composite

CALLS							PUTS					
VOLUME	OPEN.I...	BID X		ASK X		EXP	STRI...	BID X		ASK X		VOLUME	OPEN.I...
FEB 07 (2) 100													41.66%
0	28	9.50	P	9.70	C	FEB 07	70	0	X	.05	P	30	2,959
5	245	4.50	P	4.70	P	FEB 07	75	.05	I	.10	P	21	6,319
144	2,256	.55	P	.65	I	FEB 07	80	.95	I	1.00	I	68	4,628
20	7,511	0	X	.05	P	FEB 07	85	5.40	P	5.50	I	0	1,303
0	3,715	0	X	.05	I	FEB 07	90	10.30	P	10.60	C	0	576
MAR 07 (30) 100													33.54%
6	373	10.10	C	10.40	P	MAR 07	70	.35	I	.45	I	15	6,717
18	1,109	5.90	I	6.10	P	MAR 07	75	1.10	A	1.15	I	573	22,593
283	7,081	2.65	I	2.80	I	MAR 07	80	2.75	I	2.90	I	638	6,326
347	7,310	.90	B	1.00	I	MAR 07	85	6.00	X	6.20	P	24	2,398
1	5,500	.20	I	.30	I	MAR 07	90	10.40	P	10.60	C	0	3,549
JUN 07 (121) 100													32.69%
0	68	12.60	I	12.90	P	JUN 07	70	2.05	I	2.20	C	0	5,678
25	3,143	9.10	I	9.30	P	JUN 07	75	3.40	I	3.60	I	138	6,344
15	2,406	6.10	I	6.40	I	JUN 07	80	5.40	I	5.60	P	0	2,892
23	4,199	3.80	I	4.10	I	JUN 07	85	8.10	I	8.30	P	0	1,304
1	2,524	2.25	I	2.45	I	JUN 07	90	11.40	I	11.80	P	0	445

newboyo

DO, reverse conversion confusion

« **Reply #4 on:** February 14, 2007, 09:14:24 AM »

no not really on the diagonal side, more on +U-C, covered call write, to exit with a profit.

Ri$k Doctor

DO, reverse conversion confusion

« **Reply #5 on:** February 14, 2007, 09:21:06 AM »

Sorry, What is your exact current position (months, strikes, quantities of calls and puts)?
And what is(are) your exact proposed trade(s) (months, strikes, quantities of calls and puts)?

newboyo

DO, reverse conversion confusion

« **Reply #6 on:** February 14, 2007, 05:56:52 PM »

-11 Mar 100 C (which will probably expire worthless)
-3 Mar 100P (which will probably be assigned)
+800 DO.

outlook - bullish (sort of), but no firm conviction.

initial position entered into, to receive the 2.75 credit on a "riskless" conversion, which bit me on my a**e. (I know the thought behind the inital trade was contrary to what you say in CWS).

so -- current strategy being thought of , sell a call to adjust into a covered call write and exit with some money??

Ri$k Doctor

DO, reverse conversion confusion

« **Reply #7 on:** February 14, 2007, 06:23:28 PM »

Are you bullish?
What are your support and resistance levels?
Where would you get out if you are right?
Where would you get out if you are wrong?
What is your time frame?
The idea is not to just turn this into a short put, unless IV is on the moon. Is it?

It is more about what options strategy you would initiate if you had no position. Once decided, then and only then do you explore what is available in the options (with regard to attractive pricing) to transform the long stock profile to emulate an options strategy.

It is not a good idea to "revenge" trade in order to get **YOUR** money back. Guess what? It is not **YOURS** anymore. Earn it somewhere else where you have a conviction and where liquidity will give you a better chance to win.

Ri$k Doctor

Early Assinment Situation

« **on:** February 07, 2007, 08:21:02 AM »

From RD3's GoldenBear 020607:
What is best way to handle early exercise of puts options? I am getting a slew of them now on the AAPL Feb 95 puts.

15 of my short Feb 95 puts were assigned and I found myself with 1500 shares that I had to sell. To flatten my delta, I sold 15 of the Feb 90 puts (at 6.90) and then was looking to sell the 1500 shares. AAPL was moving up slightly, so I held on. It traded in a range and bumped against 83.33 a few times, but never punched through. Again it fell quickly. After breaking its previous low of 83.03, I got out at 82.89. AAPL fell to 82.86 before rallying, but you never know... it could have just as easily gone to 80.

Ri$k Doctor

Early Assinment Situation

« **Reply #1 on:** February 07, 2007, 08:32:17 AM »

Don't leg it like that. Offer it as a package.

Normally when suffering the effects of carry costs: You can offer them out at parity with th stock -- a put covered right -- sell stock sell ITM (parity) put, 1:1, collecting no premium -- will get rid of your long stock and reestablish the short put. Open Interest has to be high so that the probility of getting assigned on the new short ITM put is low. Only problem is commissions.

There is plenty of open interest in the puts you are involved in:

AAPL APPLE INC Easy to Borrow NASDAQ Delta Open Interest 12

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
85.72 Q	-.43	85.72 C	85.73 C	10 x 9	10,687,015	85.43	86.51	85.41

TRADE GRID SYMBOLS

OPTIONS Single Composite

CALLS							PUTS			
DELTA	OPEN.INT	BID X	ASK X	EXP	STRIKE	BID X	ASK X	DELTA	OPEN.INT
FEB 07 (8) 100									33.72%
1.00	499	25.70 I	25.90 I	FEB 07	60	0 I	.05 C	-.01	538
1.00	533	20.70 C	20.90 I	FEB 07	65	0 I	.05 C	-.01	3,619
1.00	1,238	15.70 P	15.90 I	FEB 07	70	0 I	.05 C	-.01	9,606
.98	8,758	10.80 P	10.90 C	FEB 07	75	0 P	.05 P	-.01	20,379
.91	13,758	5.90 P	6.10 C	FEB 07	80	.15 I	.20 C	-.08	69,344
.60	54,555	1.90 C	1.95 A	FEB 07	85	1.10 C	1.15 I	-.41	65,365
.16	69,588	.30 I	.35 B	FEB 07	90	4.50 C	4.60 C	-.84	28,215
.04	69,570	.05 C	.10 C	FEB 07	95	9.20 C	9.40 P	-.95	4,693
.01	60,203	0 I	.05 C	FEB 07	100	14.20 C	14.40 C	-.94	600
.01	36,226	0 I	.05 I	FEB 07	105	19.20 C	19.40 C	-.93	30
.01	23,653	0 I	.05 C	FEB 07	110	24.20 C	24.40 I	-.92	5
.01	13,535	0 I	.05 C	FEB 07	115	29.20 C	29.40 I	-.91	0

From Chapter 6 of "Options: Perception and Deception"

Early Exercise Situations

Before I go into the details of what these strategies entail, let me first share with you an experience that I had in the Eurodollar market. I walked onto the floor one morning at 6:00 am to prepare for the 7:20 open. My clerk handed me my statement and casually said that I had been assigned on some of my 8875 calls (verbally they are called these the 87 calls because that speeds up the process when quoting). I asked him how many. My reply was also casual as I assumed that it was for only a few contracts. When he said 400, my heart skipped a beat. To him it was nothing, but to me it meant over $30,000.00 down the drain. Those 400*8875 calls were each 250 ticks ($25.00 per tick) in-the-money ($6250.00 each). What happened was that even though -1.00 delta for each call lost were replaced by -1.00 delta for each future received, $2,500,000.00 left my account that was earning about 8.5% daily. When I was assigned on these calls I was required to deliver the futures at 8875 that were trading at 9125, which amounts to a futures margin variation of 250 ticks per contract.

The first thing that I did was to check the open interest sheets provided by the CME. There were about 5000*8875 and 1000 or so deep in-the-money calls at each of the surrounding strikes which had not yet been assigned.

On the opening bell I called, ??8850/8875 call spread, 25 bid? out to the market. There was no response, which most novices would think unusual because to get the chance to sell a 25 tick (.25) spread at 25 seems to be a trade that you cannot lose on. You would do it as many times as you could. (Some traders would say things like: ??I live for that trade?, or ??I would do this trade until my teeth fell out?, ??until my hands bled?, ??until my head caved in?, ??until my face fell off? or ??until they dragged me out of the pit and off the floor, kicking and screaming?.)

Was this a mistake that I was making? Did I really wish to trade it the other way around? Maybe the crowd was confused and thought that I was offering to sell it at 25 instead of buy it. So I asked a broker to call and ??show?? this bid to his customer Steve (a former partner of mine), who I guessed would be interested in the spread for the same reason that I was. The broker asked my size and I told him 1000 spreads. He came back and offered 1000 spreads at 25 and I said that I would buy them. I then asked the crowd if any one else was interested and told them that I would be 25 bid at 25. Once he had a chance to think about it, another trader sold me 200 more at 25.

Remember that the current futures price was 9125, and therefore placed all of these low strike puts out-of-the-money. All the little puts at those strikes were worthless and marked at a cabinet because the calls were at parity and worth exercising. Figures 6-10 and 6-11 show the ??dead?? portion of my position inventory before and after the assignment of my 400*8875 calls respectively.

Euro Position Before The Assignment.

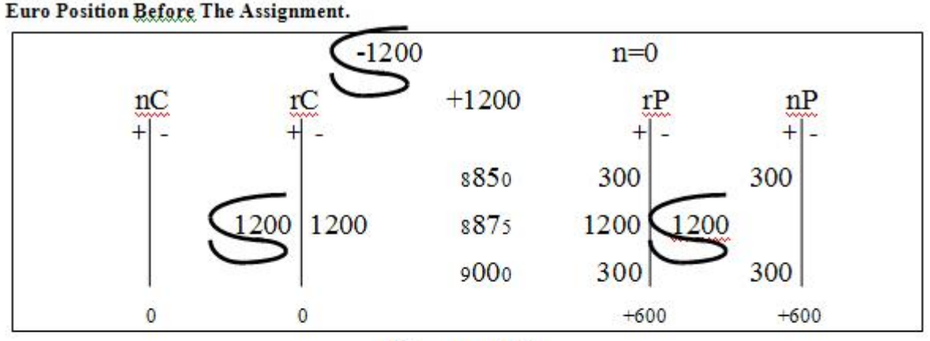


Figure 6-10

Euro Position After The Assignment.

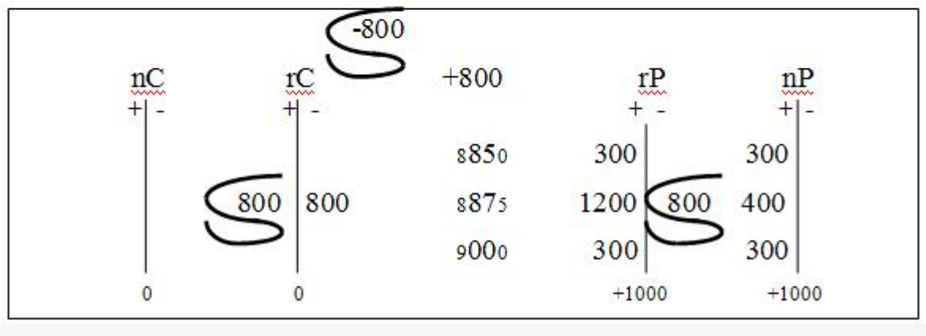


Figure 6-12 shows the position after the trade of 1200 call spreads.

Euro Position After Buying 1200*85/87 Call Spread.

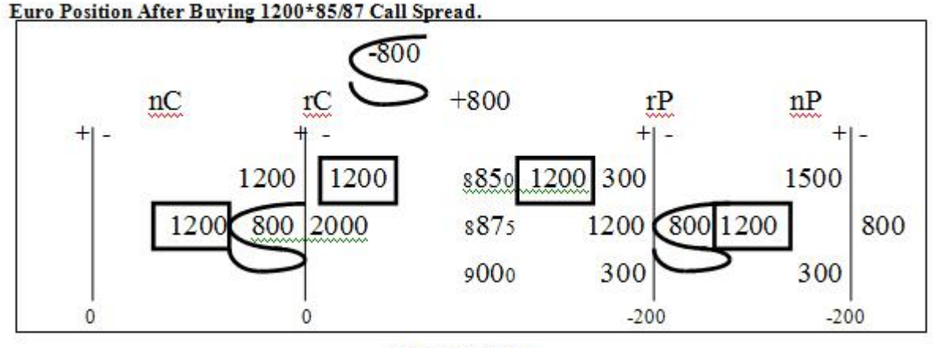


Figure 6-12

To summarize, so far 400 of my calls had been assigned, and $2.5 million dollars which was earning 8.5% interest with 45 days to go until expiration had left my account. I then spent $750,000.00 and bought 1200 call spreads (1200 x 25 ticks x $25.00 per tick) which further reduced my cash credit. What went on here? Why did I make this trade? For those who have not yet figured it out, it was because I wanted to reestablish the deep in-the-money calls which were assigned and allow for some extras in case more were assigned. I exercised the 8850 calls, which raised 275 ticks (again $25.00 per tick) in futures margin variation 1200 times for a grand total of $8,250,000.00 cash credit.

Now do not forget the traders on the other side of the spread were also likely to exercise the 8875 calls that I sold to them. I assumed that I would be hit for about half of the new 1200*8875 calls, which would reduce my cash position by $3,750,000.00 (assume 600 calls assigned x 250 ticks in-the-money x $25.00 per tick). See Figure 6-13 to see the position after my exercise of the 1200*8850 calls, assuming an assignment of one half of the 8875 calls.

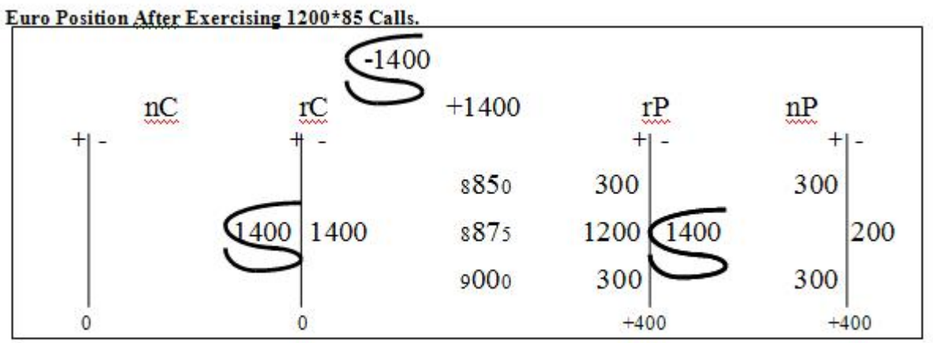


Figure 6-13

It is important to realize that this type of cash credit is not the usual kind which represents a ??wash??, where the amount of interest offsets the present value of the portfolio which loses tick value as it grows to maturity value . This cash credit is one that should not be hedged because it can disappear (by assignment) at any moment. Each of the synthetic 8875 puts had a potential value of 2.62 ticks ($65.50) ($6250.00 x 45 days left / 365 days x 8.5%) providing they were not assigned before expiration.

As it happened, I was assigned on only 200 more of the puts leaving me with a perfect synthetic butterfly 300 by -600 by 300. This strategy worked out well because I earned the interest on the short 1800 calls for the remaining 44 days. I never talked to the Steve to see how he came out, but I have to believe that he had or bought something to protect this short synthetic 8850 puts. He was probably assigned on many of them. He was not the type to hold unprotected naked short puts. He could have bought some of the 9075 puts for 1 tick (.01) each. If you think about that for a moment it is pretty amazing that you can own a synthetic bear put spread for a 1.82 tick (.0182) credit (buy the real 9075 puts for 1 tick and if you are not assigned, you are short the synthetic 8850 puts for the interest equivalent to 2.82 ticks (.0282) ($70.44)(275 ticks in-the-money x $25.00 per tick x 44 days left until expiration /365 x 8.5%). That is a big ??IF?. You would have to be pretty lucky because the assignment allocation is random. The 1000 puts that you buy at a tick become hard to sell, and so you would face a potential loss of $25,000.00 if all your short calls were assigned that night. You would also be very lucky if the market took a nose dive and brought those puts back to life.

Many traders have had great success using verticals, boxes and butterflies to help control exercise and assignment nuances. It is the vertical aspect however that is the most important. The box and butterfly aspect are a means to disguise or camouflage the execution of verticals. These three strategies involve deep in-the-money options that should be, or should have been exercised due to interest savings or earnings, or for dividend payments in stocks. The trader tries to redirect the dividends to his account, or create huge cash credits for extra interest income. It is like a lottery in that you can never know whether or not the options that you become short will be assigned. It is partly luck and partly ingenuity. In effect you are looking to acquire the unattended open interest in deep in-the-money options that, if not assigned, yields the writer extra profits.

Is this an automatic trade? No. You would not do this all the time. First, there is no guarantee that you will not be hit on the assignment. You may be wasting commission expenses, even at .10 a contract, that is $1200 on 12,000 commissions (.10 x 1000 butterflies x 4 options plus your exercise 2000 x 2 plus the potential assignment 2000 times 2). The second loss could be the loss on any protection bought because it could eventually die worthless. Let us suppose that Steve bought only 50*9075 puts, as opposed to 1000, for 1 tick ($625). He would have a ratio spread (50 x 1000) 9-strike apart. I do not know many traders who could sleep well at night with a 1 x 20 ratio spread on. Any who have are probably driving taxi cabs now.

The reason that traders mostly avoid accumulating unattended open interest in deep in-the-money options is that feeding frenzies occur which can spoil it for every one. The first frenzy followed a big investigation at one of the exchanges in the mid 80??s. We were trading butterflies that were 12 strikes in-the-money for zero back and forth and exercising our long options hoping not to get assigned on the short ones. The office of investigations got wind of it and called a few of us traders in for questioning. They thought that trading butterflies for zero and boxes for the full basic value between the strikes, thousands and thousands of times, served no economic benefit. They alleged that we were artificially inflating the volume in order to attract customer interest. This had been done with futures arbitrage in the CD market during the 70??s. At the time the traders who were found guilty of creating the artificial volume paid heavy fines. (I hate it when that happens). I educated them on the economic benefit by showing them the $72,000,000.00 cash credit that I was earning in interest each day. The investigators said, ??Oh?, and let us go. That was it. Everyone tried it after that, and when everyone trades for with the intention of exercising, it is nearly impossible to maintain the credit long enough to pay for all the commissions.

GoldenBear

Early Assinment Situation
« **Reply #2 on:** February 07, 2007, 04:20:49 PM »

With AAPL trading at 86 to 87, what are the pros and cons of buying the reversal at the Feb 85 strike vs the Feb 90 strike?

Ri$k Doctor

Early Assinment Situation
« **Reply #3 on:** February 08, 2007, 08:21:40 AM »

In your position, the 90 strike is better because it reduces Pin Risk perfectly:

	C	D	E	F	G	H	I	J	K
1	PDv2	Month 1	Month 2	Month 3					
2		FEB	MAR	APR					
10									
11		43	Raw Calls	Total Net Contracts		Raw Puts	25		
12									
13				PivotK	8500	Sell Out the			
14				Month	FEB	15oo Stock		Inc Adj	Y
15		Raw Position							
16		nC	rC	Adj	Cur	K	Cur	Adj	rP	nP
37						7500				
38						8000	20		20	20
39		5		10	(10)	8500	(10)	(10)	(20)	(25)
40		13	(2)	5	(7)	9000	20	(5)	15	
41		(5)				9500	(5)		(5)	
42		20	20		20	10000				
43						10500				
59		33	33	15	18	Net	10	(15)	(5)	(5)

GoldenBear

Early Assinment Situation
« **Reply #4 on:** February 08, 2007, 10:46:00 AM »

I am trying to trade the reversal and I am bidding .07 for the Feb 90 reversal. No one will trade with me. This is the mid-price of the bid and ask (sometimes... it jumps around a lot). With the stock at 86, perhaps the 85 reversal would be more liquid.

I notice that you have reversals on two strikes in the example above. I am trying it that way. I am bidding .07 for the 85 reversal and .07 for the 90 reversal.... still no takers.

What do you suggest? Should I bid .10 to get the trade?

Ri$k Doctor

Early Assinment Situation
« **Reply #5 on:** February 08, 2007, 11:26:36 AM »

Actually with 8 days to go the 85 reversal, using 5% interest is worth a debit of .093 (if they will trade in penny increments). So, yes, be .10 bid (84.90 credit on the electronic systems that don't use the old "floor" nomenclature). Fair value (.09) should do the trick. For the 90 strike. it is worth .099 so .10 bid (89.90 credit) should work there as well.

GoldenBear

Early Assinment Situation
« **Reply #6 on:** February 08, 2007, 03:08:29 PM »

Oddly, they took the 0.10 bid on the 90 reversal, but did not take the 0.10 bid on the 85 reversal. I shall reenter the bid tomorrow morning to see if someone takes it.

Ri$k Doctor

Early Assinment Situation
« **Reply #7 on:** February 08, 2007, 03:17:12 PM »

Good idea. They might already have it the same way at the 85 strike and not want to ad to the pin risk.

To get rid of the stock, you can do more at the 90 and the resulting position will be a short 85/90 box that may end up having pin risk to deal with in a week. What that might mean is if you cannot buy the box at 5.00 then to motivate the MMs to take on more pin risk you might have to pay 5.05 or so.

arp

DH Collar

« **on:** February 05, 2007, 08:34:57 AM »

Hi Charles,

In the following post:
How to adjust a Slingshot Bear call spread?

A member mentioned DH Collar and you asked what is DH Collar.
I wanted to provide a brief description and get your opinion on it: (following is not a complete description and captures the essence):

DH Collar Description

1. A volatile stock is needed that moves at least 1 strike per month.
2. Obviously we prefer an upward bias because the collar is a bull spread.
3. Front month options are traded, unless there is very few days left to expiration.
4. A volatility based formula is used to determine the strike to buy the put and sell the call. Usually the bull spread is placed at neutral premium. If the strikes determined by formula are not available, then one can create a synthetic strike.
5. If stock goes flat for couple of months, then we exit and move on to a more volatile stock
6. If stock moves down by 1 strike, the collar is repositioned lower (put and call are rolled down 1 strike).
7. If stock starts swinging back up after bottoming, money collected from the short calls and long put is used to buy more stock and of course, hedged with options.
8. If stock goes up by 1 strike, the collar is also repositioned (rolled up 1 strike). The long put will not be sold during the roll up if there is not much premium left in it.
9. Some discretion can be used in deciding whether to sell any calls (creating a bull spread) or not (creating a synthetic call). When market is moving up strongly, you can elect not to sell the calls.

A variation used by a trader I know, does the following if the stock is dropping:

A. The long put is kept and not rolled down as long as the stock keeps dropping fast. But once the short calls lose more than 2/3 of their value, they're rolled lower. You will end up creating a conversion if you roll it down to the long put strike, and of course, a bear spread once you roll it below the strike of the put, & that's fine.
B. Once the stock stops falling, then the put is rolled down or once we're at expiration.

The claim about this strategy is:

Claim is that after trading this for about a year or so, as long as stocks stays volatile, and swings up and down, or goes up (& doesn't go on a steady downtrend w/o volatility), the strategy will make money. Some claim to have made well over 50% per year and some much much more than that.

Your evaluation/input is greatly appreciated.

Ri$k Doctor

DH Collar

« **Reply #1 on:** February 08, 2007, 09:27:22 AM »

QUOTE

1. A volatile stock is needed that moves at least 1 strike per month.

Bull spreads tend to be less sensitive to movement when valued with high implied volatility, but if you can get a low implied volatility situation and have the stock be volatile, great.

QUOTE
2. Obviously we prefer an upward bias because the collar is a bull spread.

You can do bear collars, if you want by shifting the levels of the call and put ?? call lower strike than the put, against long stock reverses the direction. QUOTE

QUOTE

3. Front month options are traded, unless there is very few days left to expiration.

I agree because they will move quicker.

QUOTE

4. A volatility based formula is used to determine the strike to buy the put and sell the call. Usually the bull spread is placed at neutral premium. If the strikes determined by formula are not available, then one can create a synthetic strike.

No formula needed ?? when the underlying is about half way between the two strikes (unless a huge skew) then the result is a (ATM) bull spread risk profile that can make just as much as it can lose.

QUOTE

5. If stock goes flat for couple of months, then we exit and move on to a more volatile stock

All expiration ATM verticals (stock half way between the two strikes) are similarly priced (even the leap verticals)

QUOTE
6. If stock moves down by 1 strike, the collar is repositioned lower (put and call are rolled down 1 strike).

This is adding to a loser (sending live soldiers after dead ones). Think of it as starting with a 50/55 call bull spread and when it goes against you roll the 50s down to 45s giving you the 45/55 spread (more to lose).

QUOTE
7. If stock starts swinging back up after bottoming, money collected from the short calls and long put is used to buy more stock and of course, hedged with options.
BTW: Playing with a simple call debit spread or a put credit spread makes the same amount of money. Why not buy a big screen TV instead of more Stock?

QUOTE
8. If stock goes up by 1 strike, the collar is also repositioned (rolled up 1 strike). The long put will not be sold during the roll up if there is not much premium left in it.

This is adding to a winner, turning the 50/55 into the 50/60 (ala the call debit spread or the put credit spread). Many prefer to trade a higher strikes bear spread to lock in a profit rolling into a butterfly or condor for more potential profit. Others, having profited on the 50/55 and still bullish roll up to the 55/60 by selling the 50/55/60 butterfly locking in a profit on the lower strikes spread and hoping for a continued move up to profit on the now cheaper spread put in its place.

QUOTE

9. Some discretion can be used in deciding whether to sell any calls (creating a bull spread) or not (creating a synthetic call). When market is moving up strongly, you can elect not to sell the calls.

True. The claims could be right. We have had a bull market over the last few years. Bull spreads tend to profit in a bull market.

murmeister

Diag - Sears Holding

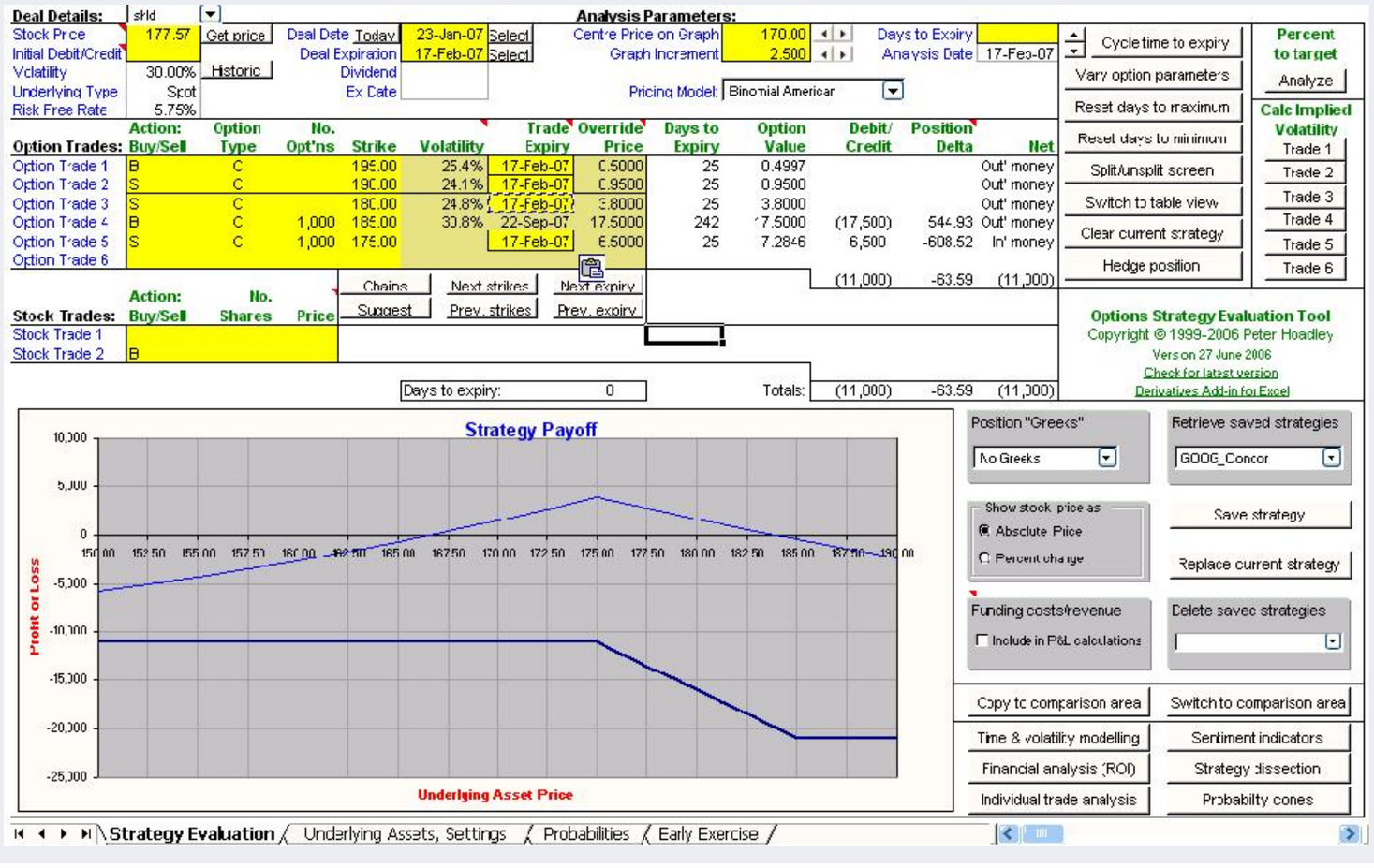
« **on:** January 24, 2007, 07:25:33 AM »

I thought I would send something I think would work as a Diagonal ... my efforts may not be exact .. and please feel free to comment. I hope one or the other have some merit:

Technical Analysis - Currently: Resistance is 182 and Support is 167

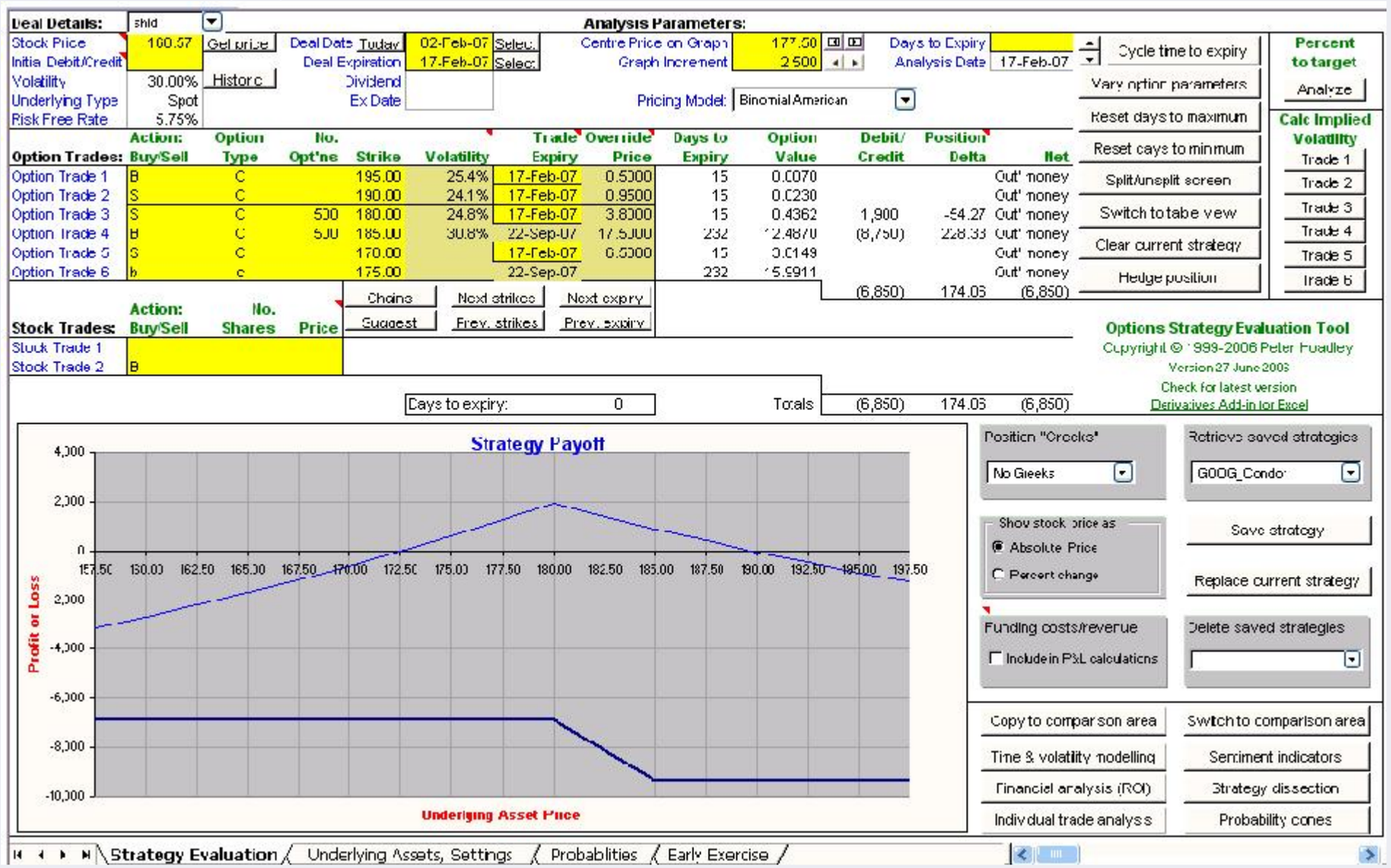
Sears Holding (SHLD)

1. Sell short 10 FEB 175 Calls and buy 10 SEP 185 Calls
Cost: $11.00 debit per spread (17.50 - 6.50) or $11,000
Max profit: about $3.80 per spread at 175

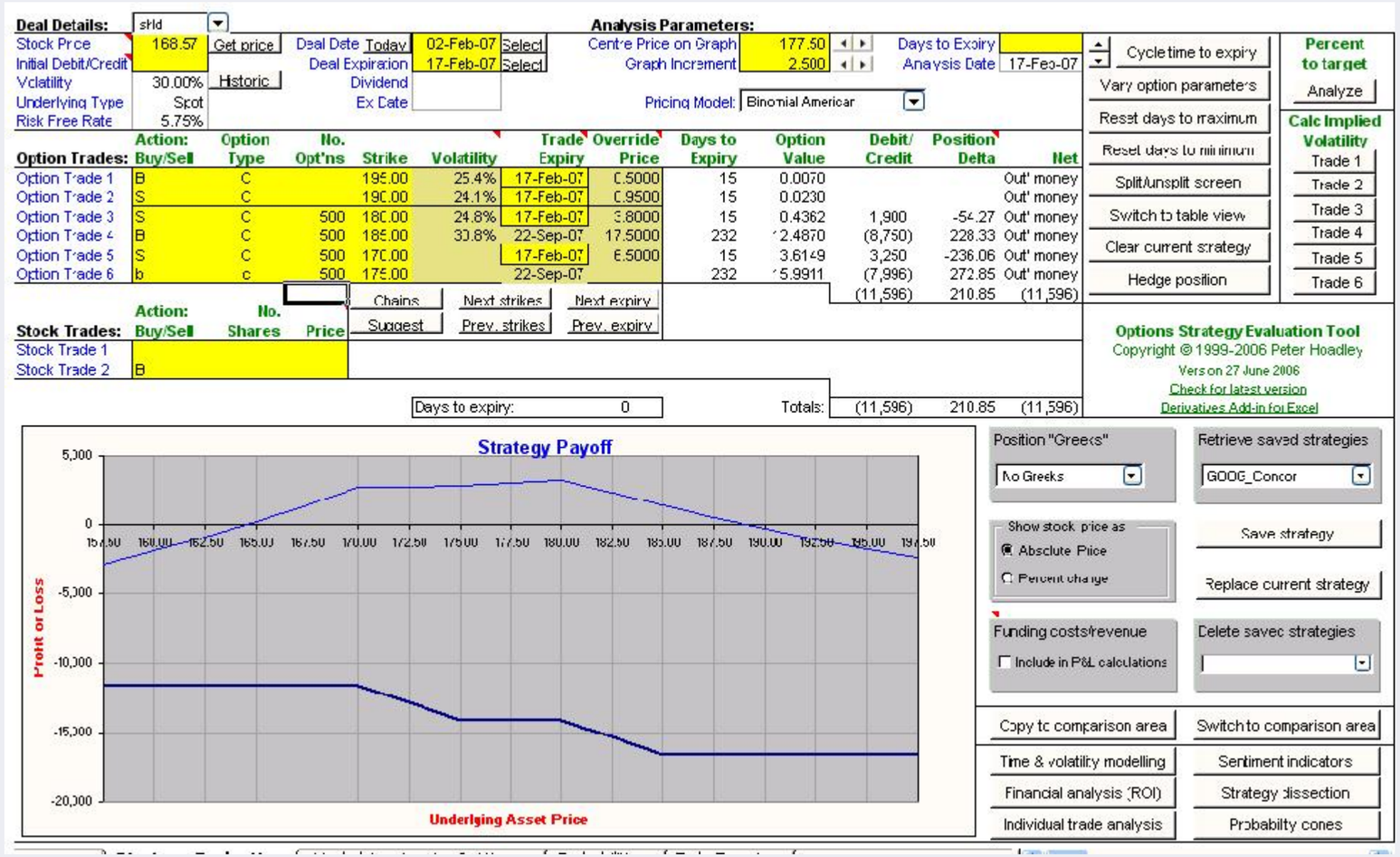


OR

2. Sell short 5 FEB 180 Calls and buy 5 SEP 185 Calls
Cost: $13.70 debit per spread (17.50 - 3.80) or $6,850
Max profit: about 1.94 per spread with breakevens 172.50 and 189



Potential adjustment - if it goes **Down to 168.50**: Sell short 5 FEB 170 Calls and buy 5 FEB 175 Calls....
...that changes my postion to have:
Max profit: about 5.33 per spread at 170 or 6.47 at 180 with breakevens at 164 and 188



nt - if it goes **Up to 183** Sell short 5 FEB 185 Calls and buy 5 SEP 190...
.23 per spread at 180 or 5.82 at 185 with breakevens at 175 and 192.50

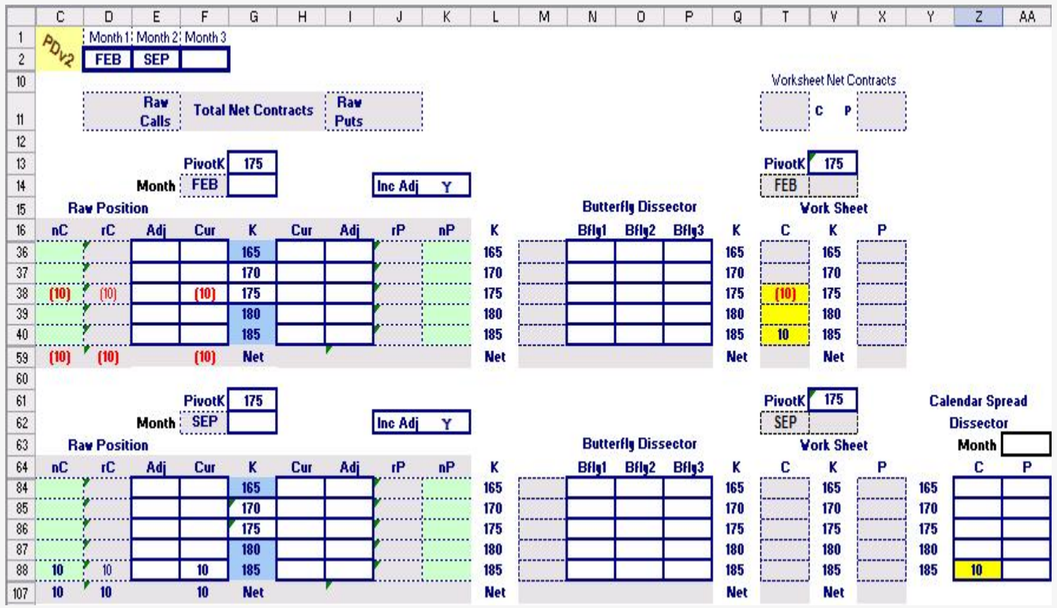
Ri$k Doctor

Diag - Sears Holding

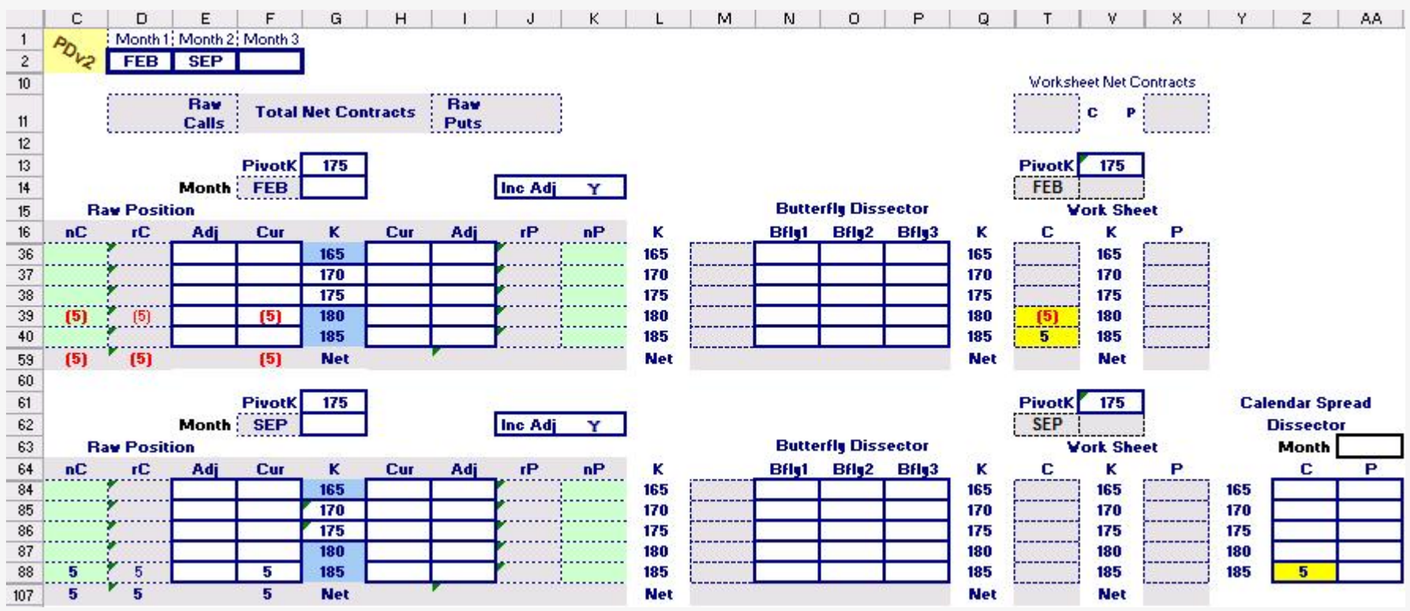
« **Reply #1 on:** January 26, 2007, 03:06:15 PM »

These are bear dialgonal spreads and the proposed adjustments are also result in variations of the bear diagonal theme. A diagonal (long the deferred month) is employed to take advantage of premium levels (IV) which seem kind of low, historically speaking:

Dissections #1



#2 Usually when halving the strike distance one doubles the size so I am wondering why you are coosing to go down to 5 spreads and not up to 20 as a reconsideration to allternative #1?



#2 if Down:
OK, that is adding to a winner, leaving a cheap butterfly that once profits are taken, will become another way to make some money in the event of a rebound.

Dissected, it is very convoluted and difficult to manage. The SEP, for example is 2 sets of 5 long calls, skipping a strike. That skipped strike is a 10 lot, body of a butterfly, that is the easiest and quickest trade to make in an emergency. Banging out 10 SEP 180 calls takes 90% of SEP's risk off in a single trade, leaving a cheap butterfly as a lower priority that can be dealt with later.

Therefore, FEB is a short butterfly and short 10 FEB 175 Calls.

Then there is the 10 lot calendar (here taken at the 180 strike) leaving 10 FEB 175/180 bear spreads).

PDv2 | Month 1: FEB | Month 2: SEP | Month 3:

Raw Calls | Total Net Contracts | Raw Puts

Worksheet Net Contracts: C | P

Month: FEB | PivotK: 175 | Inc Adj: Y

Raw Position

nC	rC	Adj	Cur	K	Cur	Adj	rP	nP	K
				165					165
	(5)	(5)		170				(5)	170
(5)				175				5	175
(5)	(5)		(5)	180					180
				185					185
				190					190
(10)	(10)	(5)	(5)	Net					Net

Butterfly Dissector

K	Bflg1	Bflg2	Bflg3	K
165				165
170				170
175	(5)	(5)		175
180				180
185				185
190				190
Net	(5)	(5)		Net

Work Sheet: PivotK: 170 | FEB

C	K	P
	165	
	170	
(10)	175	
10	180	
	185	
	190	
	Net	

Month: SEP | PivotK: 175 | Inc Adj: Y

Raw Position

nC	rC	Adj	Cur	K	Cur	Adj	rP	nP	K
				165					165
				170					170
5	5	5		175					175
				180					180
5	5		5	185					185
10	10	5	5	Net					Net

Butterfly Dissector

K	Bflg1	Bflg2	Bflg3	K
165				165
170				170
175				175
180	5	5		180
185				185
Net	5	5		Net

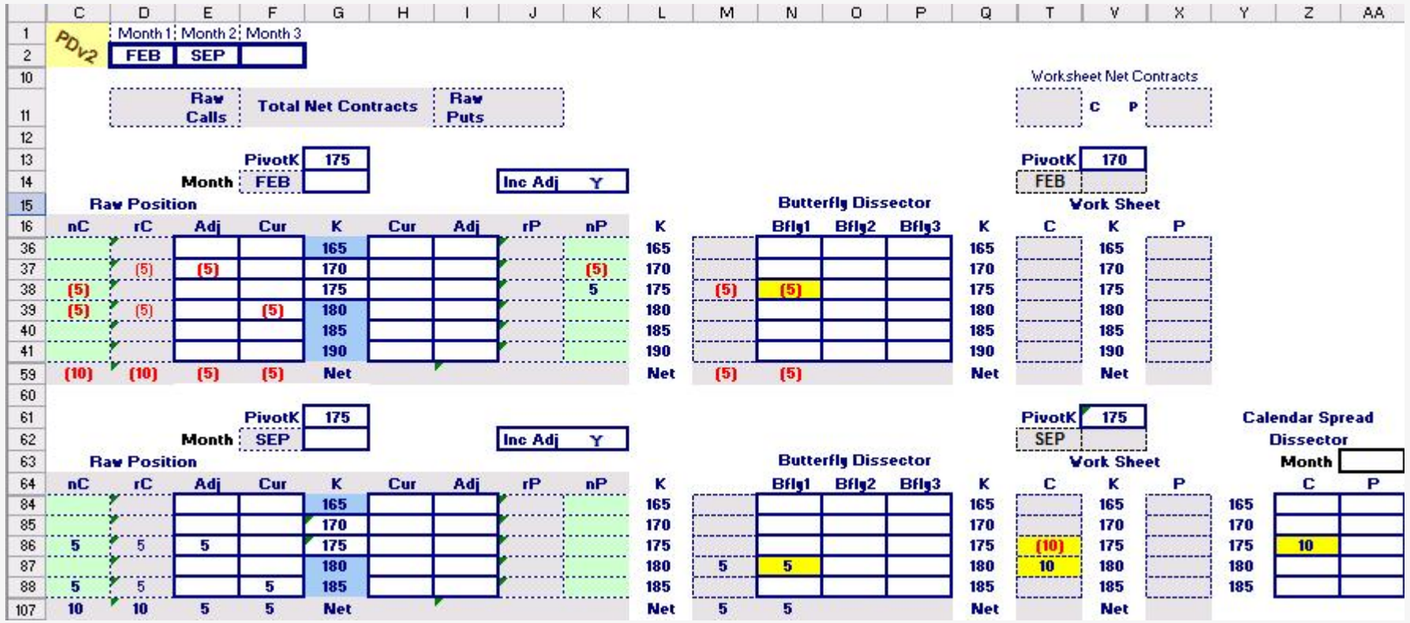
Work Sheet: PivotK: 175 | SEP

C	K	P
	165	
	170	
	175	
	180	
	185	
	Net	

Calendar Spread Dissector: Month

	C	P
165		
170		
175		
180	10	
185		

Taken at the 175 strike buts the bears spread in SEP:



#2 if Up:

This is adding to a loser or what some call sending in live soldiers after the dead soldiers. It is also taking on more risk so I am not wild about you developing this bad habit. This is either stretching the 5 point vertical to a 10 pointer in FEB, by dissecting out the 185 and 190 calendars...

...or SEP by dissecting out the 180 and 185 calendars.

murmeister

Diag - Sears Holding
« **Reply #2 on:** February 07, 2007, 07:49:13 PM »

I am sorry to make this confusing ... so here is my idea
one put on a position having some reserve to maintain a winning position. So your questions and points are valid... although I need to read your book again to understand.

Ok ... the first diagram with a 10 x 10 is a full position on.
That was my first cut on what may be a nice solid Calender.
Then what I started to think and obviously not articulate was to put on a position that will cover 1 SD ... understanding that not withstanding a huge Vol increase the 1 SD will slowly over time turn into a > 1 SD and keep some reserve to expand the trade into a 2 or more SD thus increasing the odds to 95 percentile..... as you see in the last two diagrams I go from: -5 FEB 180 C / +5 SEP 185 C to -5 FEB 180 C / +5 SEP 185 C / -5 FEB 170 C / +5 SEP 175 C to increase the area for the my non-directional play. The additional spread was added to increase the spread for the underlying moving to a 168ish price

So there are a couple of things one this very well could be a good move because I still have some time value. The added spread in fact may improve things.
What I am trying to develop is a template for calendar trades to meet a 2 SD by expanding the traded when the underlying starts to push one area or another.
The template should contain the following characteristics (i.e. existing Vol, Time to expiration, change in price relative to short strike price, etc., or anything else). This is where I begin to shake at the knees my depth is only 3 feet and even though it looks like I can get in the deep end I am really just treading water. I want greater depth and to be able to swim with confidence.

Thanks for the response

Ri$k Doctor

Diag - Sears Holding
« **Reply #3 on:** February 08, 2007, 08:56:30 AM »

My impression is that you are getting lost in the science and trying to construct a holy grail type of trade. I have expressed the pros and cons of your proposed trades and will happily continue to do so. My strength is in comunicating in a manner that dissects the convoluted positions that one presents, into its basic components. Sorry, I don't think I would be of any help to you with regard to a discussion of probabilities or how they relate to various strike prices (short or long).

The key to prevent the shaking, would be to keep it simple. Why? Because a simple position is an easy one to make decisions about and act on, when deemed necessary, without all the dilemma of deciding what to do first when timing becomes crucial.

rachalupa

AAPL Time spread

« **on:** January 01, 2007, 07:35:13 AM »

It appears that currently you can buy Feb 70, 80, 90 AAPL puts and sell Jan 70,80,90 puts for approx $3.50 debit for each set. Very wide profit range on the P&L graph with approximately 35% profit on the trade.

I entered this position and will be watching closely before the 18th when AAPL quarterly news is released; to pull the position or buy a lot of delta neutral JAN insurance on that day.

In reviewing AAPL chart for the year, they appear to have a lot of stability within a 10 point range.

Any thoughts on this play?

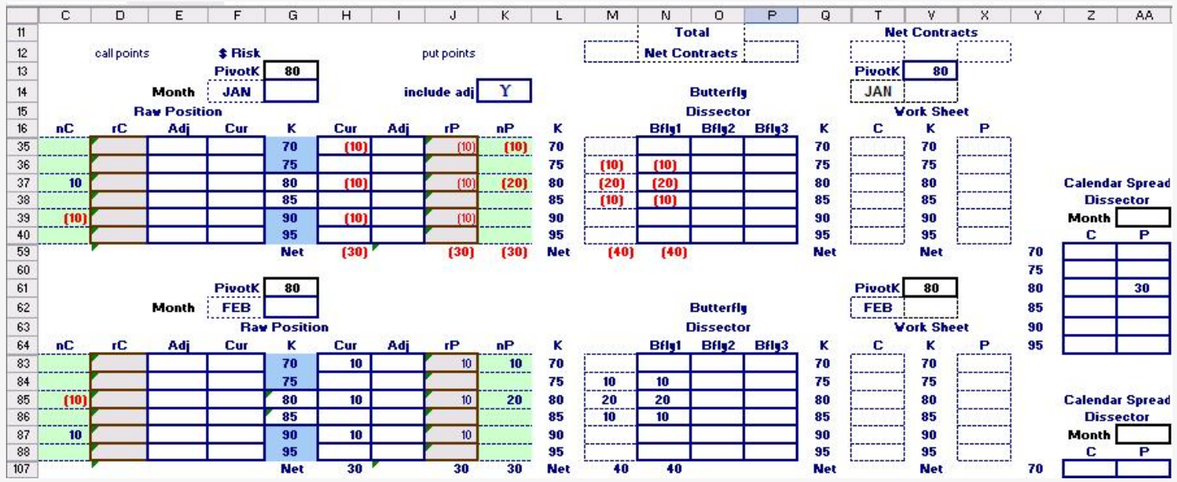
Ri$k Doctor

AAPL Time spread

« **Reply #1 on:** January 01, 2007, 09:28:35 AM »

I am very concerned for you. This position makes no sense. IV is near its all time high, meaning it is a bad time for long calendars.

I cannot see any reason to do any of this.
I hope you know what you are doing and I hope to learn something from this and please be careful.
Don't get me wrong. I like playing for sideways here with AAPL, just not the way you are doing it.



Another matter is that three adjascent calendars, when dissected work out to be short butterflies in JAN and long them in FEB with the 30 Long calendars resulting at the 30 strike.

In a high IV environment, calendars are fat and butterflies and condors are cheap.

Ri$k Doctor

AAPL Time spread

« **Reply #2 on:** January 17, 2007, 07:07:51 AM »

I hope you got out. The $3,500 cost ("3.50 each set" 10 times) is currently worth about $2000, 1.65 + .40 + .05

Judging from the closer-to-the-money configuration (85/95/105): you would be holding your own, had ther been no $10 move in AAPL, so far.

AAPL APPLE INC Easy to Borrow NASDAQ | Theta | Vega | 10

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
95.69 P	-1.41	95.68 A	95.67 P	10 x 5	10,333,189	97.56	97.60	95.40

YIELD	PE	EPS	DIV	DIV.FREQ	DIV.DATE	52HIGH	52LOW	BETA	SHARES
0.00%	42.15	2.27	0	--	N/A	97.80	50.16	1.444	859,274,...

TRADE GRID | SYMBOLS

OPTIONS | Calendar | Composite

CALLS THETA	CALLS VEGA	CALLS BID X	CALLS ASK X	STRIKE	PUTS BID X	PUTS ASK X	PUTS THETA	PUTS VEGA
JAN 07/FEB 07 (2/30) 100								84.85%
.03	.01	.10	.60	70 / 70	0	.10	.04	.01
.07	.02	.20	.70	75 / 75	.10	.20	.03	.02
.05	.04	.60	1.00	80 / 80	.40	.50	.06	.04
.14	.06	1.10	1.40	85 / 85	.90	1.00	.13	.06
.27	.07	1.80	2.10	90 / 90	1.60	1.75	.25	.07
.38	.08	2.30	2.50	95 / 95	2.05	2.20	.33	.08
.31	.08	2.10	2.25	100 / 100	1.70	2.00	.28	.08
.16	.08	1.50	1.65	105 / 105	1.10	1.40	.15	.07
.06	.06	.90	1.05	110 / 110	.40	.80	.13	.05
.00	.05	.55	.65	115 / 115	.10	.50	-.03	.04
FEB 07/APR 07 (30/93) 100								46.54%

Ri$k Doctor

AAPL Time spread

« **Reply #3 on:** January 18, 2007, 07:52:44 AM »

After Earnings:
Even if you chose the 80/90/100 Configuration you would only just be breaking even at this point. Tje 70/80/90 looks to be down .35 at the moment:

AAPL APPLE INC Easy to Borrow NASDAQ | Theta | Vega | 10

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
90.37 P	-4.58	90.36 C	90.37 Q	19 x 7	42,019,465	92.10	92.11	89.37

TRADE GRID | SYMBOLS

OPTIONS | Calendar | Composite

CALLS THETA	CALLS VEGA	CALLS BID X	CALLS ASK X	STRIKE	PUTS BID X	PUTS ASK X	PUTS THETA	PUTS VEGA
JAN 07/FEB 07 (1/29) 100								50.06%
-.01	.01	.10	.60	70 / 70	0	.10	.07	.01
-.01	.02	.20	.70	75 / 75	.10	.20	.06	.02
-.01	.05	.60	1.00	80 / 80	.45	.55	.04	.05
-.03	.08	1.60	2.00	85 / 85	1.35	1.45	.06	.08
.17	.08	2.80	3.00	90 / 90	2.50	2.65	.15	.08
.03	.09	1.85	2.00	95 / 95	1.40	1.80	.06	.09
.01	.07	.80	.90	100 / 100	.40	.70	.11	.06
.02	.04	.30	.40	105 / 105	-.10	.40	.20	.03
.04	.02	.10	.20	110 / 110	-.30	.30	.30	.02
.05	.01	0	.10	115 / 115	-.30	.30	.41	.02
FEB 07/APR 07 (29/92) 100								37.47%

Ri$k Doctor

AAPL Time spread
« **Reply #4 on:** January 18, 2007, 12:56:24 PM »

10 minutes before the close.

STOCK AND OPTION QUOTE — SETUP

symbol: AAPL — APPLE INC — Easy to Borrow — NASDAQ | description | information layouts: Vega / Net Change | strike qty: 10

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
89.70 D	-5.25	89.70 C	89.71 P	9 x 13	81,254,197	92.10	92.11	89.37

TRADE GRID — SYMBOLS

OPTIONS — Single — Composite

CALLS VEGA	CALLS NET CH...	CALLS BID X	CALLS ASK X	EXP	STRIKE	PUTS BID X	PUTS ASK X	PUTS VEGA	PUTS NET CH...
JAN 07 (1) 100									47.59%
.00	-5.20	19.60 C	19.80 C	JAN 07	70	0 I	.05 C	.00	+.04
.00	-4.80	17.10 C	17.40 C	JAN 07	72.5	0 I	.05 C	.00	+.03
.00	-5.10	14.60 C	14.90 C	JAN 07	75	0 I	.05 C	.00	+.02
.00	-5.20	9.60 C	9.90 C	JAN 07	80	0 I	.05 C	.00	-.05
.01	-5.40	4.70 C	4.90 C	JAN 07	85	.05 X	.10 C	.01	-.25
.03	-5.35	.55 I	.60 X	JAN 07	90	.80 C	.85 X	.03	-.15
.01	-2.95	.05 I	.10 I	JAN 07	95	5.20 C	5.40 C	.00	+2.30
.00	-1.05	0 P	.05 C	JAN 07	100	10.20 C	10.40 C	.00	+4.10
.00	-.30	0 P	.05 C	JAN 07	105	15.20 C	15.40 C	.00	+4.80
.00	-.14	0 B	.05 C	JAN 07	110	20.20 C	20.40 C	.00	+5.50
FEB 07 (29) 100									36.20%
.01	-6.00	24.90 A	25.10 I	FEB 07	65	0 I	.05 C	.00	0
.00	-5.50	19.90 C	20.10 P	FEB 07	70	0 I	.05 X	.01	-.05
.02	-5.70	15.10 P	15.30 C	FEB 07	75	.10 C	.20 C	.02	-.10
.05	-5.30	10.50 C	10.70 C	FEB 07	80	.50 C	.55 I	.05	-.05
.08	-5.10	6.50 C	6.70 C	FEB 07	85	1.50 I	1.55 C	.08	+.38
.10	-4.40	3.60 I	3.70 C	FEB 07	90	3.50 I	3.60 C	.10	+.85
.09	-3.35	1.75 C	1.80 C	FEB 07	95	6.60 C	6.80 C	.09	+1.90
.06	-2.35	.70 I	.75 I	FEB 07	100	10.60 C	10.80 I	.06	+3.00
.03	-1.35	.25 I	.30 I	FEB 07	105	15.30 B	15.50 C	.03	+4.20

AAPL — APPLE INC — Easy to Borrow — NASDAQ | Vega / Net Change | 10

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
89.72 P	-5.23	89.72 P	89.73 P	7 x 21	81,302,801	92.10	92.11	89.37

TRADE GRID — SYMBOLS

OPTIONS — Calendar — Composite

CALLS VEGA	CALLS NET CH...	CALLS BID X	CALLS ASK X	STRIKE	PUTS BID X	PUTS ASK X	PUTS VEGA	PUTS NET CH...
JAN 07/FEB 07 (1/29) 100								47.59%
.00	-.50	.10	.50	65 / 65	-.05	.05	.00	+.02
.01	-.30	.10	.60	70 / 70	-.05	.05	.00	-.09
.02	-.50	.20	.70	75 / 75	.05	.20	.02	-.12
.05	-.10	.60	1.10	80 / 80	.45	.55	.05	0
.08	+.40	1.60	2.00	85 / 85	1.40	1.50	.08	+.63
.08	+.90	3.00	3.15	90 / 90	2.60	2.75	.08	+1.00
.09	-.40	1.70	1.80	95 / 95	1.20	1.60	.08	-.40
.06	-1.30	.65	.75	100 / 100	.20	.60	.05	-1.10
.03	-1.05	.20	.30	105 / 105	-.10	.20	.02	-.60
.02	-.63	.05	.15	110 / 110	-.20	.20	.02	-1.30
FEB 07/APR 07 (29/92) 100								36.20%
.04	+.10	.70	1.10	65 / 65	.20	.30	.03	+.05
.06	+.40	1.00	1.50	70 / 70	.55	.70	.06	+.15
.08	+.50	1.70	2.10	75 / 75	1.10	1.25	.08	+.33
.09	+.30	2.40	2.80	80 / 80	1.85	2.00	.09	+.47
.08	+.50	3.10	3.50	85 / 85	2.45	2.70	.08	+.63
.08	+.60	3.40	3.70	90 / 90	2.70	2.90	.08	+.45
.09	+.05	3.20	3.35	95 / 95	2.30	2.70	.09	+.29
.10	-.45	2.65	2.80	100 / 100	1.80	2.20	.10	0
.11	-.90	1.95	2.10	105 / 105	1.10	1.40	.11	-1.50

Ri$k Doctor

AAPL Time spread

« **Reply #5 on:** January 19, 2007, 10:28:00 AM »

2 1/2 hours before expiration.

AAPL APPLE INC Easy to Borrow NASDAQ | Vega | Net Change | 9

UNDERLYING

LAST X	NET CHNG	BID X	ASK X	SIZE	VOLUME	OPEN	HIGH	LOW
89.41 Q	+.34	89.40 C	89.41 C	4 x 12	32,591,342	88.63	89.47	88.12

TRADE GRID SYMBOLS

OPTIONS Calendar Composite

CALLS					PUTS			
VEGA	NET CH...	BID X	ASK X	STRIKE	BID X	ASK X	VEGA	NET CH...
JAN 07/FEB 07 (0/28) 100								57.30%
.01	-.87	.20	.50	70 / 70	0	.10	.01	0
.02	-.60	.30	.60	75 / 75	.10	.20	.02	+.04
.05	-.30	.60	1.00	80 / 80	.40	.50	.05	-.08
.08	-.15	1.60	1.90	85 / 85	1.30	1.40	.08	-.24
.09	+.15	2.95	3.10	90 / 90	2.55	2.85	.09	+.16
.08	-.22	1.35	1.45	95 / 95	.90	1.30	.08	-.01
.05	-.11	.50	.60	100 / 100	.10	.50	.04	-.10
.03	-.03	.15	.25	105 / 105	-.20	.20	.01	-.20
.01	-.05	0	.10	110 / 110	-.20	.20	.02	-.75
FEB 07/APR 07 (28/91) 100								35.10%