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**rossroy**  
Newbie

**Arbitrage**  
« **on:** June 20, 2006, 04:42:34 AM »

Hello Charles,  
I would like to know if there are arbitrage possibilities in the option market. I know reading from your book and studying something else that we have to find the put-call parity violated or the law of one price that is not confirmed. Can you suggest some method in the event you do this kind of financial operations to find these opportunities and the way to choose them.  
Thank you  
Roberto F.

**Ri\$k Doctor**  
Administrator  
Hero Member

**Arbitrage**  
« **Reply #1 on:** June 21, 2006, 08:48:31 AM »

No, not for a retail trader. You have to have the fastest auto-quoting systems, commission structure and market maker margins.

**rossroy**  
Newbie

**Out of the Stating Gate with Losses**  
« **on:** June 12, 2006, 01:20:08 PM »

Hello Charles, I am very interested about options, and I found your bookvery interesting, even if not easy to acknowledge on the first sight. I want to be a successful option trader but for now I am only a contributor on my account of 10000\$ now I have only 8000\$. So I am trying to find a solution for this situation that I cannot control with my actual knowledge. May be the perfect system does not exist, but I want to learn to put the odds in my favour at least a bit, at least up to when my account is founded. I have decided to do paper trading for now because I have bought different options on SFNT and RSAS and may be I found the only two shares that stay in a tight range and my strategy doesn't work at all. I am a bit down for the result and I hope you can help me at least with your book if not in person. I thank you for your attention and I thank you for the book in advance because I know that I will learn a lot from it.  
With my respect for your work I greet you. Grazie. Excuse my English I am from Italy.  
Sincerely yours.  
Roberto F. 😊

**Ri\$k Doctor**  
Administrator  
Hero Member

**Out of the Stating Gate with Losses**  
« **Reply #1 on:** June 12, 2006, 02:18:06 PM »

You have to keep it small in the beginning. You cannot afford to lose everything before you learn the game. You should not play stocks like SFNT and RSAS because you cannot get a fair deal. There is very little volume and open interest and as a consequence there are wide bid and ask spreads that make it so you have to right too often. Profitable options trading is not totally dependent on being right, but it helps a lot.

I don't know what you use to pick direction or non-direction but you must prove that it works long before you have real money on the line.

~~When you are really ready, you should also confine your plays to stocks that have relatively tight bid/ask spreads.~~

**rossroy**  
Newbie

**Out of the Stating Gate with Losses**  
« **Reply #2 on:** June 13, 2006, 12:18:33 AM »

I thought that a good ask/bid spread was in the range of max. 0,20\$ or less. That is what I saw when I bought options. The spreads for SFNT and RSAS were in that range. The Open interest was more than 100 and the Average Daily Volume for the underlying was >300000. But it is not sufficient. Maybe I have made a mistake in trusting the Yahoo Finance Most Active Shares just in the day when there was a inquiry from the SEC for these companies -- that was not good; in the day I picked up the options after the stock gapped down, so, next, I realised, after I bought the options, that the news was already discounted in the jump, even because in the following days the stock remained in a tight range. Another mistake was that in that day SFNT reached the low of the year, so it was not vert prudent to bet on more downtrending without a certain signal of that. I bought Put options on SFNT on the basis of this story. Can you give any suggestion? I think that TA sometimes is over rated.  
Thank you and greeting from Italy,  
Il Bel Paese,  
Roberto F.

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

**Out of the Stating Gate with Losses**  
« **Reply #3 on:** June 14, 2006, 03:03:06 PM »

.20 wide is fair for \$100 stock. .50 is fair for a \$400 stock. These are stocks in the teens and .20 wide is "thanks but, no thanks".

yfrr  
Guest

split and assignment  
« on: June 01, 2006, 09:49:41 PM »

Hello,

I have both NUE and GS options. I use TOS. Three questions.

1, NUE split. NUE split this morning 2:1. I didn't do this, but I'd like to know the outcome. Say I put in an order last night, to sell NUE 105 put at 2.00. What would happen this morning? Is TOS going to automatically adjust my order to sell NUE 52.5 put at 1.00, with twice the size?

2, GS call early assignment. I have 150/155 call credit spread. GS is at 153. Without considering dividend, cost of carry etc, just assume I was assigned on the short 150 call. What's going to happen? Is there any requirement of amount of cash available in the account?

3, GS put early assignment. What about 150/155 put credit spread? If short 155 put got assigned, and I don't have enough money to buy the stock, what's going to happen?

Appreciate if anybody can shed some lights on.

Yi

Ri\$k Doctor  
Administrator  
Hero Member  
  
Posts: 3249

split and assignment  
« Reply #1 on: June 04, 2006, 08:39:27 PM »

All brokerage firms are different and even though I was a co-founder of TOS, they may have changed their procedures since I left 3 years ago. So check with them for sure...

**Quote**  
1, NUE split. NUE split this morning 2:1. I didn't do this, but I'd like to know the outcome. Say I put in an order last night, to sell NUE 105 put at 2.00. What would happen this morning? Is TOS going to automatically adjust my order to sell NUE 52.5 put at 1.00, with twice the size?

The order should be adjusted if it was a GTC but I would pull up your system and see if it is in your "Working Orders". If it is not, make sure you call them so the order does not get duped. You never know if they have it somewhere else, 'working' and just not yet in the system.

**Quote**  
2, GS call early assignment. I have 150/155 call credit spread. GS is at 153. Without considering dividend, cost of carry etc, just assume I was assigned on the short 150 call. What's going to happen? Is there any requirement of amount of cash available in the account?

An equity call should only be early assigned if there was a dividend greater than the 150 put plus the carry on the stock but in the unlikely event, cash would come into the account, not out, for shorting the stock and since you would have the protective call you would be Ok. I am sure that TOS would not liquidate it before talking to you. They understand risk, well. They were all good students.

**Quote**  
3, GS put early assignment. What about 150/155 put credit spread? If short 155 put got assigned, and I don't have enough money to buy the stock, what's going to happen?

That is a more likely event but, again, TOS would not worry because you have the protective put. They would call you the next trading day and give you a few days to put money into the account. If you said that you would not be putting money in the account, I think that they would give you a couple of days to get out of it.



**Murph**  
Moderator  
Jr. Member

**COMMODITIES**

« **on:** May 26, 2006, 09:10:19 AM »

Charles, I've been studying futures and commodities for some time now, not specifically from an options viewpoint though. The GG trade reviewed in RD3 on Wednesday was quite impressive and just the sort of option approach I've been investigating, for naked options in addition to more complex spreads. Can you tell me a good source for finding the universe of stocks that mimic commodities?

TOS does not handle options on commodities and they tell me that the option price spreads are not fair for commodities in general. Charles, didn't you mention some time back that you traded commodity options in the past? If so, where did you trade or what brokers would you recommend today for trading commodity options in addition to the commodity and futures products per se?

I'd appreciate any comments from Charles and fellow RD3ers.

Murph

**Ri\$k Doctor**  
Administrator  
Hero Member

**COMMODITIES**

« **Reply #1 on:** May 26, 2006, 09:55:07 AM »

Besides looking into ETFs or pulling up charts of companies that highly correlate to specific commodities, I don't know of such a service that provides that type of data.

I was a futures options market maker for most of my career.

Don't let wide markets fool you. The Eurodollars are as tight as tight can be. Why? Because they don't move a lot (the MidCurve Options do). If the spreads are wide in a mature, high volume market, it is for a reason. That reason is usually volatility and that means that market makers have a lot of slippage in their underlying futures hedges regularly. That means they have to widen the markets on the options commensurately to build in their edge.

If you are looking for volatility then a natural by-product is wide markets and if you're profitable you will not mind what anyone else considers to be a bad fill.

**yfr**

**COMMODITIES**

« **Reply #2 on:** June 01, 2006, 09:18:06 PM »

Murph,

To follow up on your original post "stocks mimic commodities". I am not on RD3 level yet, but here is my 2 cents about gold.

When you look at gold, mainly you have gold future, GLD and HUI. Gold future is physical gold, GLD is ETF which was designed to track gold price, HUI is miners.

Between gold future and GLD. It's no trivial task to mimic gold price. The way GLD does is to buy and sell physical gold for its London vault. At the time of divergency between gold price and GLD, there might be a vicious circle because of GLD buying and selling. So far, GLD has done a good job tracking gold price.

Between gold future and HUI. HUI has a lot more leverage when gold goes up. The reason being is that all the extra profit goes directly to the bottom line, with the same P/E, you got price way up. But by the same token, HUI also suffers more on the downside.

I heard one way to invest in secular gold is, buy HUI component during cyclical bull, then liquid HUI and buy GLD during cyclical bear. This way, at least you participate one way or the other, even the decline. It's a big psychological factor.

As always, it's easier to talk the talk.

Yi

**Frank**  
Newbie

**A very good tradermakes 6% per month**  
« on: May 19, 2006, 01:10:49 PM »

Dear Charles,  
I read the following very interesting paragraph in your latest book: (very) good option traders make about 6 % per month, realistic it should be 2-3% a month, page X of the preface. Both of course are very good profits! If all options trade at about fair value where does this profit come from? Somehow a trader must have an edge. That means in my opinion he should be a very good trader, who anticipates very well future prices of the underlying. But that might imply that he would (probably) also make money if he is trading no options, but for example only stocks or futures without options. Or does this trader has an extra edge when he trades options, because for example he can adjust positions? I have the feeling I am missing something. I am looking forward to your answer! Frank

**Ri\$k Doctor**  
Administrator

**A very good tradermakes 6% per month**  
« Reply #1 on: May 21, 2006, 09:30:37 AM »

A very good market maker can make 10 to 30% pr month but that is a totally different game.  
For the retail investor, a realistic goal should be about 2%-3% per month realizing that there may be draw-downs of 8% in some months and gains of 10% or more in others.

Where does the money come from?

90% of options traders lose, for one thing. The other is that options positions as part of a hedge can lose while the underlying profits. 3 Examples:

1. Covered write: where stock goes to the moon. Stock wins big and option loses.
2. Married put: where stock goes to the moon. Stock wins big and option loses.
3. Collar: where stock goes to the moon. Stock wins big and both options lose.

You are right about having to correctly anticipate the movement of the underlying for directional plays but what about non-directional?

Also you can have directional plays that are short premium (gamma and vega but positive theta) where time decay is on your side, that even though wrong on the direction can be profitable. Example: Credit spread that does not make it into the money but the underlying moved in that adverse direction.

I could go on and on but I hope you get the point.

yfrr

**A very good tradermakes 6% per month**  
« Reply #2 on: May 25, 2006, 11:40:38 AM »

Charles,  
Let me just follow up on the short premium verticals. To give a real example, say I am bearish on BA. Here is some data.  
BA at 82.75.  
June (22 days) 85/90 call vertical: 1.02.  
July (57 days) 85/90 call vertical: 1.57.

1, I can either short the 85/90 call vertical, or buy 85/90 put vertical. That's the same risk profile. When do you choose one over the other?

2, Time frame. June option has 22 days to go, July 57 days. Is there a general time frame you look into, say how many days to go?

3, Risk Reward. Obviously, we can't look for high reward low risk in this type of setup. But using June option for example, to risk 4 to make 1 is hard to justify, at least for me at this point. What's a good ratio you find most success with? Thanks.  
Yi





A very good tradermakes 6% per month

« Reply #3 on: May 25, 2006, 03:48:59 PM »

Interesting questions but let's apply them to the 80/85 vertical to better understand these nuances. Why the 80/85? Because in the first 5 months are all trading at 2.80ish. The Put spreads are 2.20ish.

|                         |  |           |  |                |  |         |  |           |  |               |  |
|-------------------------|--|-----------|--|----------------|--|---------|--|-----------|--|---------------|--|
| BA                      |  | BOEING CO |  | Easy to Borrow |  | Delta   |  | Gamma     |  | 2             |  |
| UNDERLYING              |  |           |  |                |  |         |  |           |  |               |  |
| LAST X                  |  | NET CHNG  |  | BID X          |  | ASK X   |  | SIZE      |  | VOLUME        |  |
| 82.99 N                 |  | +61       |  | 83.07 P        |  | 83.90 P |  | 2 x 10    |  | 3,295,700     |  |
| OPEN                    |  | HIGH      |  | LOW            |  |         |  |           |  |               |  |
| 82.80                   |  | 83.80     |  | 82.29          |  |         |  |           |  |               |  |
| TRADE GRID              |  |           |  |                |  |         |  |           |  |               |  |
| OPTIONS                 |  |           |  |                |  |         |  |           |  |               |  |
| Single                  |  |           |  |                |  |         |  |           |  |               |  |
| Composite               |  |           |  |                |  |         |  |           |  |               |  |
| CALLS                   |  |           |  |                |  | PUTS    |  |           |  |               |  |
| DELTA                   |  | GAMMA     |  | BID X          |  | ASK X   |  | EXP       |  | STRI...       |  |
| JUN 06 (22) 100         |  |           |  |                |  |         |  |           |  | 25.93%        |  |
| .71                     |  | .06       |  | 4.20 B         |  | 4.30 I  |  | JUN 06 80 |  | .95 I 1.05 I  |  |
| .38                     |  | .07       |  | 1.40 I         |  | 1.45 I  |  | JUN 06 85 |  | 3.10 I 3.30 I |  |
| JUL 06 (57) 100 24.55%  |  |           |  |                |  |         |  |           |  |               |  |
| .66                     |  | .04       |  | 5.40 I         |  | 5.60 I  |  | JUL 06 80 |  | 1.85 I 2.00 I |  |
| .44                     |  | .05       |  | 2.60 I         |  | 2.75 I  |  | JUL 06 85 |  | 4.00 I 4.10 C |  |
| AUG 06 (85) 100 26.47%  |  |           |  |                |  |         |  |           |  |               |  |
| .65                     |  | .03       |  | 6.40 I         |  | 6.60 X  |  | AUG 06 80 |  | 2.75 I 2.90 I |  |
| .47                     |  | .04       |  | 3.60 I         |  | 3.80 I  |  | AUG 06 85 |  | 4.90 I 5.10 I |  |
| NOV 06 (176) 100 24.84% |  |           |  |                |  |         |  |           |  |               |  |
| .64                     |  | .02       |  | 8.20 B         |  | 8.40 I  |  | NOV 06 80 |  | 3.80 X 4.00 I |  |
| .51                     |  | .03       |  | 5.40 I         |  | 5.60 I  |  | NOV 06 85 |  | 6.00 I 6.20 I |  |
| JAN 07 (239) 100 24.73% |  |           |  |                |  |         |  |           |  |               |  |
| .63                     |  | .02       |  | 9.40 B         |  | 9.60 I  |  | JAN 07 80 |  | 4.40 I 4.60 I |  |
| .53                     |  | .02       |  | 6.60 B         |  | 6.80 I  |  | JAN 07 85 |  | 6.60 I 6.80 I |  |

Cool!  
Here are some more questions:  
Why are they all the same price between the months?  
Which is the best deal?  
Which one should I trade?  
What is the difference between them?

Starting with yours:

**Quote**  
When do you choose one over the other?

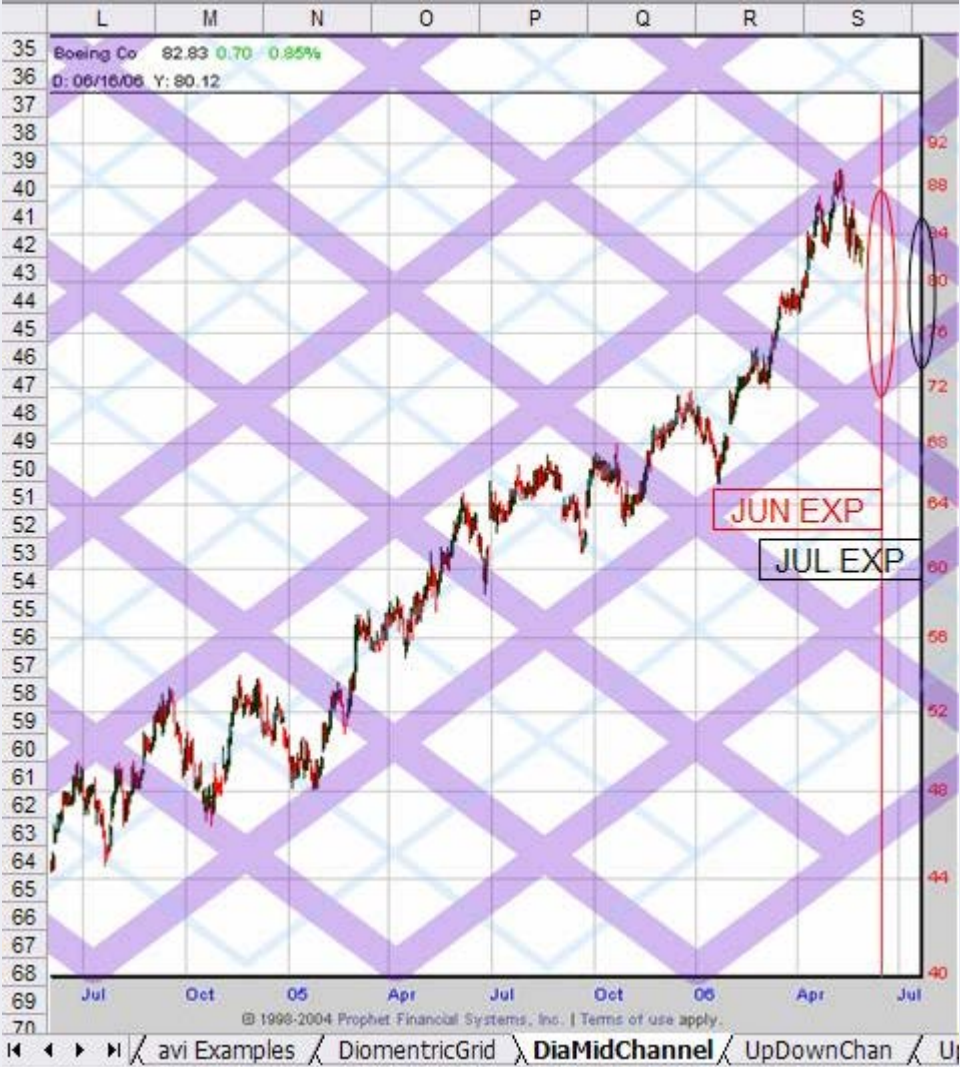
If you enter the order as a spread there is not much difference between call credit spread and put debit spread. If you are legging it, then you will want to do the put spread so that your first leg (buying the 85 put), for one thing is NOT naked short and that the direction is temporarily consistent with what you want (bearish). Had you shorted the 80 call on the first leg, you would be naked short. If you bought the 85 call on the first leg, you would be temporarily long deltas (not consistent with your bearish outlook).

**Quote**  
Time frame. Is there a general time frame you look into, say how many days to go?

Time frame has to do with market opinion and timing of it. I personally use my proprietary technical analysis called Diamonetrics??, to choose my timeframe (JUN has more downside than JUL) and identify support and resistance with the WickZones?? (the light transparent purple channels) and the likely expiration ranges.

**Quote**  
Risk Reward. What's a good ratio you find most success with?

If you have less time then you can go for less of a credit, especially if you have the resistance areas to warrant going short. The cheaper you sell for means that you have to play for a closer stop. Personally, I like trades that I cannot get scared out of (they may come back) so I tend to like a selling more expensive spreads and tend to gut it out when they move against me. I make the market prove to me that the adverse move is valid before exiting or adjusting. It becomes a trader's choice thing in different situations and not something that you can boil down to rules (although there are those that never sell a 5 point vertical for less than 1.80 -- that never meant anything to me because the same school said don't pay more than 3.50 for a debit spread -- Guess what? This options trading school did not realize that paying 3.50 was the same as the credit spread for 1.50 --they consistently broke their own rules synthetically).



yfr

A very good tradermakes 6% per month

« Reply #4 on: May 25, 2006, 05:12:27 PM »

Charles,

Here is how I understand the 80/85 spread.

Why are they all the same price between the months?

Because they are at the money verticals. When BA is at 82.99, we only pay 2.80 for 80/85 call spread. This is the time value in play. For the same reason, put spread is valued at 2.20, meaning 0.20 was paid for the time decay.

Which is the best deal?

Which one should I trade?

Depending on the timing. Near month spread moves bigger than far month.

What is the difference between them?

Delta, Theta. I guess I don't know the practical difference.

Referring to your answer to R/R, I am not trying to hard press a rule, as I very much appreciate the art aspect of trading. But when you say "selling more expensive spreads", how expensive can it be? For a 5-point vertical, it can't be more than 2.50, right? Otherwise you will be synthetically long premium, having negative theta. Did I understand the concept correct?

Many thanks.

Yi

Risk Doctor

Administrator  
Hero Member

A very good tradermakes 6% per month

« Reply #5 on: May 26, 2006, 08:09:22 AM »

Delta means it is more sensitive to underlying price movement. That means the vertical will move quicker to 5.00 or 0 faster than the back month options. Theta, and at the moment that is not too great but on the 85/90 spread it is greater in the front month so even a slight slow rally (not higher than 85) in the underlying may not be enough to beat the rate of decay.

Expensive can mean more than 2.50. I am not opposed to being slightly long premium (OTM debit spreads or ITM credit spreads) in some cases, especially when IV is relatively low. I prefer to be short premium but not if the credit spread is too cheap to be short.



**quark**  
Newbie  
★  
Posts: 2



**Deltas of risk**

« **on:** May 25, 2006, 01:35:33 PM »

In your book, Options Trading: The Hidden Reality, page 313, in the e-mail conversation, a reference is made to trading with a maximun delta of 600. What does that mean, and how is it computed?

I know that an equivalent stock position is  $ESP = \text{quantity} \times 100 \text{ per contract} \times \text{delta}$ .

**Ri\$k Doctor**  
Administrator  
Hero Member  
★★★★★  
Posts: 3249



**Deltas of risk**

« **Reply #1 on:** May 25, 2006, 03:14:32 PM »

Right, 100 shares is 100 deltas. An ATM delta is about 50 deltas so that would be a 12 lot long or short (but that can grow) if 600 is your personal limit like the trader in the book's "Email Dialogue".

If the ATM is 50 deltas andf the next one higher is 30 then the delta of that vertical (at that moment) would be 20 so that would allow the trader to have a position of 30 spreads (30 spreads X 20 deltas is 600 total.

Is that what you were looking for?

**quark**  
Newbie  
★  
Posts: 2



**Deltas of risk**

« **Reply #2 on:** May 25, 2006, 05:28:01 PM »

Yes, that explains it. Was there some sort of rule or heuristic of money management that led him to choose 600?

**Ri\$k Doctor**  
Administrator  
Hero Member  
★★★★★  
Posts: 3249



**Deltas of risk**

« **Reply #3 on:** May 26, 2006, 08:01:49 AM »

No, not at all. Everyone should know their own personal trading size and that happened to be his at the time.

Size should be based on performance and not trading capital per se. If 2 different investors each have \$100,000 but one has great experience and is consistently profitable, between \$3500 and \$7000 can be the risk of any one trade.

A novice, however, with \$100,000 should confine the trading (experimentation) to 2 lots (2 is better than 1 because you can get out of half the position when on the fence with a decision).

yfrr  
Guest

**delta v.s. capital at risk**  
« on: May 15, 2006, 08:36:52 PM »

Hello RD,

I have a question regarding position size.

In order to keep consistence in the development phase, I'd like to trade with equal size. Now that's a challenge. I have seen you mentioned equal size as of same delta. However, same delta for different underlying different strategy could mean vastly diffrence regarding capital at risk. How do you reconsile these? Is there a general guide line that you can share?

Thanks.  
Yi

**Ri\$k Doctor**  
Administrator  
Hero Member  
  
Posts: 3249

**delta v.s. capital at risk**  
« Reply #1 on: May 16, 2006, 12:42:29 PM »



The concepts of cap weighting comes through in a way that will be extremely useful to you because you want to equate many stocks in a portfolio with pretty equal weighting.

There are many more such trade examples originally from the RD3 Webinar series that eventually were moved to the open forum.

yfrr  
Guest

**delta v.s. capital at risk**  
« Reply #2 on: May 17, 2006, 08:58:05 PM »

Thanks, that's very good read, although I am not crazy about pair trade against highly correlated stocks. I'd like to bring up dedicated discussion on that topic later.

I can see cap-weighted position management a good way to balance one's stock portfolio. But does it necessarily as effective in option trading? If you trade stocks, it's more like a 2-dimension world. There are capital outlay upfront and capital at risk (theoretically stop loss kick in without much slippage). With options only trading, forget about time and IV for a moment, we still have two elements: delta and capital at risk (the premium paid), which are not correlated. For example, if I am bullish on the market, I can buy ITM call vertical if I am also bearish on the IV, otherwise, I might buy OTM call vertical to anticipate rise on both underlying and IV. Comparing the two approaches, ITM vertical has more capital at risk than OTM vertical. As far as delta, as underlying goes up, ITM delta goes down whereas OTM delta goes up first then goes down (with the tipping point the mid of strikes?). My objective is to keep equal size between trades in order to maintain consistence. My thinking is that even with same underlying, you still have either different delta or different amount of capital at risk. Let me go back to the original question. Which one should I go, delta or capital at risk?

Thanks again.

Yi

**Ri\$k Doctor**  
Administrator  
Hero Member  


**delta v.s. capital at risk**  
« Reply #3 on: May 18, 2006, 07:45:45 AM »

Cap.

If you understand the procedures in the CHK/ECA spread (one long and one short) then you should understand the proper allocation procedures. CHK was offset by ECA because they were equal in their Cap weighting. Now suppose you wanted to get long both with equal measure like in your original question. The calculations in that thread show you how.

fh2000

GOOG hedge

« on: May 05, 2006, 05:28:20 PM »

Hi,

I just purchased Charles' new book. Went to Chapter 9 right away for SlingshotHedge. There is a lot of stuff for me to digest, and I understand that this forum is probably not for newbies like me, but..

1. GOOG was purchased at \$280.
2. Sold a 2008 \$410 call.

Is it worth any effort to work out a 2008 SlingshotHedge? I am thinking of a 2008 360P and 2 410C/460C spread (less one short 410C since I own one already).

Thanks

fh2000

GOOG hedge

« Reply #1 on: May 10, 2006, 01:11:53 PM »

Today, I purchased a Sept 400 Put to protect the downside. I now have a traditional collar on, though my put is nearer than my call.

I am still trying to figure out how and when I should turn my sold call into a bear call spread in order to recover some cost.

fh2000

GOOG hedge

« Reply #2 on: May 11, 2006, 10:28:43 AM »

This is what I have put on today. If you do not wish me posting like this, please let me know. I just want to know if this is the right procedure and look at it as a learning process. If the SlingshotHedge is working for my small holding of GOOG, I will apply it to my larger 401K holdings. I found out that I can not do paper trade too well. That is why I am using GOOG live trade to learn.

Today,

1. I rolled down my Sept 400 PUT to Sept 380 PUT with a small profit. GOOG is down about 20 points since I purchased 400P.
2. I put on a Sept Bear call spread with +2 420Call/-2 400Call for \$8.2 credit each. Total credit: \$1640.
3. I had already sold a 2008 410 call earlier.

The Bear call spread credit only covers about half of the 380P, but since I already sold a 2008 410 Call earlier, I figure this Slingshot + 410 covered call is the best I can simulate a 380/400/420 SlingshotHedge.

From now, I will monitor my Bear call spread and adjust into a Butterfly. If I can do that, I will then look into harvest baby butterflies later....

Comments and suggestions are welcome.

Ri\$k Doctor  
Administrator  
Hero Member

GOOG hedge  
« Reply #3 on: May 12, 2006, 02:12:13 PM »


I think your 2008 trades are non-productive; no gamma.

To have on a 2008 400/410 collar will be like watching paint dry. The SEP for that matter will crawl compared to closer stuff. Butterflies on their own and butterflies embedded in Slingshots are really cheap the farther out you go but won't perform until getting closer to the wire. The extra embedded wings on the other hand are very expensive and have very low gamma so I think if you stay with your course of action you will find your self spinning your wheels and paying a lot of commissions without significant results.

I will get emails when you respond now because I set up tracking. Should not be more than a 24 hour turn around when tracking is activated.

fh2000  
Newbie  
★  
Posts: 9

GOOG hedge  
« Reply #4 on: May 12, 2006, 04:46:25 PM »

Thank you, RiskDoctor, for your response. Your book is an easier read than Nathenberg's, though I run a risk of browsing yours too fast without really digesting the material.  '>  
I plan to read thru multiple times.

If I read your comments right, near month SlingshotHedge will perform better that 3-4 months out, let alone LEAPS I was even thinking of. This also coincides with your comment in the book, that this strategy calls for someone with time and close monitoring ability so one can do a couple of adjustments in a week if necessary.

With GOOG down again today, my Sept Bear call and put are all in the money now. I might consider closing them all out and start with a June Slingshot play.

Am I still off base with this plan?

Ri\$k Doctor  
Administrator  
Hero Member  
★★★★★  
Posts: 3249

GOOG hedge  
« Reply #5 on: May 12, 2006, 05:21:54 PM »

Need more info. Please tell me the exact position you have and the one you are considering. I will look for your response and respond on Sunday if I have the time.

fh2000  
Newbie  
★  
Posts: 9

GOOG hedge  
« Reply #6 on: May 13, 2006, 07:39:48 AM »  
OK. Here is the current position for GOOG:

1. 100 GOOG Shares
2. Long 1 Sept 380 Put
3. Sept Bear Call Spread with +2 420C / -2 400C
4. Short 1 2008 410 C.

The credit that I got from BCS is only half of the cost of the PUT. But I figure that other half was covered by the LEAPS short call.

GOOG has dropped to \$374. Both my long call and bear call spread have shown a profit. I could close out (2), and (3) to take some profit, and re-establish the June positions:

1. 100 GOOG shares (no change)
2. Long June 370 Put (roll down and near)
3. Sept Bear Call Spread with +2 410C / -2 390C (roll down and near) -- credit will only cover about 2/3 of cost for the put, but I still have the LEAPS short call.
4. Short 1 2008 410 C (no change)

I guess the reason for rolling down and near is:

1. Take some profit, though the profit can not even offset the loss of the stock value since GOOG dropped 40 points since last week.
2. Gamma of June spread (0.008/0.006 per Etrade) is higher than Sept spread (0.005/0.005 per Etrade).

Is it worth rolling down and near?



Initial Position Dissection:

|     |       |              |         |         |         |         |         |       |                     |       |       |            |     |     |   |   |   |
|-----|-------|--------------|---------|---------|---------|---------|---------|-------|---------------------|-------|-------|------------|-----|-----|---|---|---|
|     | C     | D            | E       | F       | G       | H       | I       | J     | K                   | L     | M     | P          | R   | T   | U | V | W |
| 1   |       | Month 1      | Month 2 | Month 3 | Month 4 | Month 5 | Month 6 | Total |                     |       |       |            |     |     |   |   |   |
| 2   |       | SEP          | 2008    |         |         |         |         |       |                     |       |       |            |     |     |   |   |   |
| 11  |       |              |         |         |         |         |         |       | Net Contracts       |       |       |            |     |     |   |   |   |
| 12  |       | PivotK       | 390     |         |         |         |         |       |                     |       |       | PivotK     | 390 |     |   |   |   |
| 13  | Month | SEP          | 1       |         |         |         |         |       |                     |       |       |            |     |     |   |   |   |
| 14  |       | Raw Position |         |         |         |         |         |       | Butterfly Dissector |       |       | Work Sheet |     |     |   |   |   |
| 15  |       | nC           | rC      | K       | rP      | nP      | K       |       | Bfly1               | Bfly2 | Bfly3 | K          | C   | K   | P |   |   |
| 32  |       |              |         | 360     |         |         | 360     |       |                     |       |       | 360        |     | 360 |   |   |   |
| 33  |       |              |         | 370     |         |         | 370     |       |                     |       |       | 370        |     | 370 |   |   |   |
| 34  |       |              |         | 380     | 1       | 1       | 380     |       |                     |       |       | 380        |     | 380 |   |   |   |
| 35  |       | 1            |         | 390     |         | (1)     | 390     | 1     |                     |       | 1     | 390        |     | 390 |   |   |   |
| 36  |       | (2)          | (2)     | 400     |         |         | 400     | 2     | 2                   |       |       | 400        |     | 400 |   |   |   |
| 37  |       |              |         | 410     |         |         | 410     | 1     | 1                   |       |       | 410        | (1) | 410 |   |   |   |
| 38  |       | 2            | 2       | 420     |         |         | 420     |       |                     |       |       | 420        | 1   | 420 |   |   |   |
| 58  |       | 1            | 1       | Net     |         |         | Net     | 4     | 3                   |       | 1     | Net        |     | Net |   |   |   |
| 59  |       |              |         |         |         |         |         |       |                     |       |       |            |     |     |   |   |   |
| 60  |       | PivotK       | 390     |         |         |         |         |       |                     |       |       | PivotK     | 390 |     |   |   |   |
| 61  | Month | 2008         |         |         |         |         |         |       |                     |       |       | 2008       |     |     |   |   |   |
| 62  |       | Raw Position |         |         |         |         |         |       | Butterfly Dissector |       |       | Work Sheet |     |     |   |   |   |
| 63  |       | nC           | rC      | K       | rP      | nP      | K       |       | Bfly1               | Bfly2 | Bfly3 | K          | C   | K   | P |   |   |
| 80  |       |              |         | 360     |         |         | 360     |       |                     |       |       | 360        |     | 360 |   |   |   |
| 81  |       |              |         | 370     |         |         | 370     |       |                     |       |       | 370        |     | 370 |   |   |   |
| 82  |       |              |         | 380     |         |         | 380     |       |                     |       |       | 380        |     | 380 |   |   |   |
| 83  |       |              |         | 390     |         |         | 390     |       |                     |       |       | 390        |     | 390 |   |   |   |
| 84  |       |              |         | 400     |         |         | 400     |       |                     |       |       | 400        |     | 400 |   |   |   |
| 85  |       | (1)          | (1)     | 410     |         |         | 410     |       |                     |       |       | 410        |     | 410 |   |   |   |
| 86  |       |              |         | 420     |         |         | 420     |       |                     |       |       | 420        |     | 420 |   |   |   |
| 106 |       | (1)          | (1)     | Net     |         |         | Net     |       |                     |       |       | Net        |     | Net |   |   |   |

Adjusted Position:

|     |       |              |     |      |    |     |     |   |                     |       |       |            |     |     |   |   |   |
|-----|-------|--------------|-----|------|----|-----|-----|---|---------------------|-------|-------|------------|-----|-----|---|---|---|
|     | C     | D            | E   | F    | G  | H   | I   | J | K                   | L     | M     | P          | R   | T   | U | V | W |
| 2   |       | JUN          | SEP | 2008 |    |     |     |   |                     |       |       |            |     |     |   |   |   |
| 11  |       |              |     |      |    |     |     |   | Net Contracts       |       |       |            |     |     |   |   |   |
| 12  |       | PivotK       | 390 |      |    |     |     |   |                     |       |       | PivotK     | 370 |     |   |   |   |
| 13  | Month | JUN          | 1   |      |    |     |     |   |                     |       |       |            |     |     |   |   |   |
| 14  |       | Raw Position |     |      |    |     |     |   | Butterfly Dissector |       |       | Work Sheet |     |     |   |   |   |
| 15  |       | nC           | rC  | K    | rP | nP  | K   |   | Bfly1               | Bfly2 | Bfly3 | K          | C   | K   | P |   |   |
| 32  |       |              |     | 360  |    |     | 360 |   |                     |       |       | 360        |     | 360 |   |   |   |
| 33  |       |              |     | 370  | 1  | 1   | 370 |   |                     |       |       | 370        |     | 370 |   |   |   |
| 34  |       |              |     | 380  |    |     | 380 |   |                     |       |       | 380        |     | 380 |   |   |   |
| 35  |       | 1            |     | 390  |    | (1) | 390 |   |                     |       |       | 390        |     | 390 |   |   |   |
| 36  |       |              |     | 400  |    |     | 400 |   |                     |       |       | 400        |     | 400 |   |   |   |
| 37  |       |              |     | 410  |    |     | 410 |   |                     |       |       | 410        |     | 410 |   |   |   |
| 56  |       |              |     | 600  |    |     | 600 |   |                     |       |       | 600        |     | 600 |   |   |   |
| 57  |       |              |     | 610  |    |     | 610 |   |                     |       |       | 610        |     | 610 |   |   |   |
| 58  |       | 1            | 1   | Net  |    |     | Net |   |                     |       |       | Net        |     | Net |   |   |   |
| 59  |       |              |     |      |    |     |     |   |                     |       |       |            |     |     |   |   |   |
| 60  |       | PivotK       | 390 |      |    |     |     |   |                     |       |       | PivotK     | 390 |     |   |   |   |
| 61  | Month | SEP          |     |      |    |     |     |   |                     |       |       | SEP        |     |     |   |   |   |
| 62  |       | Raw Position |     |      |    |     |     |   | Butterfly Dissector |       |       | Work Sheet |     |     |   |   |   |
| 63  |       | nC           | rC  | K    | rP | nP  | K   |   | Bfly1               | Bfly2 | Bfly3 | K          | C   | K   | P |   |   |
| 80  |       |              |     | 360  |    |     | 360 |   |                     |       |       | 360        |     | 360 |   |   |   |
| 81  |       |              |     | 370  |    |     | 370 |   |                     |       |       | 370        |     | 370 |   |   |   |
| 82  |       |              |     | 380  |    |     | 380 |   |                     |       |       | 380        |     | 380 |   |   |   |
| 83  |       |              |     | 390  |    |     | 390 |   |                     |       |       | 390        |     | 390 |   |   |   |
| 84  |       | (2)          | (2) | 400  |    |     | 400 |   |                     |       |       | 400        |     | 400 |   |   |   |
| 85  |       |              |     | 410  |    |     | 410 |   |                     |       |       | 410        |     | 410 |   |   |   |
| 86  |       | 2            | 2   | 420  |    |     | 420 |   |                     |       |       | 420        |     | 420 |   |   |   |
| 106 |       |              |     | Net  |    |     | Net |   |                     |       |       | Net        |     | Net |   |   |   |
| 107 |       |              |     |      |    |     |     |   |                     |       |       |            |     |     |   |   |   |
| 108 |       | PivotK       | 390 |      |    |     |     |   |                     |       |       | PivotK     |     |     |   |   |   |
| 109 | Month | 2008         |     |      |    |     |     |   |                     |       |       | 2008       |     |     |   |   |   |
| 110 |       | Raw Position |     |      |    |     |     |   | Butterfly Dissector |       |       | Work Sheet |     |     |   |   |   |
| 111 |       | nC           | rC  | K    | rP | nP  | K   |   | Bfly1               | Bfly2 | Bfly3 | K          | C   | K   | P |   |   |
| 128 |       |              |     | 360  |    |     | 360 |   |                     |       |       | 360        |     | 360 |   |   |   |
| 129 |       |              |     | 370  |    |     | 370 |   |                     |       |       | 370        |     | 370 |   |   |   |
| 130 |       |              |     | 380  |    |     | 380 |   |                     |       |       | 380        |     | 380 |   |   |   |
| 131 |       |              |     | 390  |    |     | 390 |   |                     |       |       | 390        |     | 390 |   |   |   |
| 132 |       |              |     | 400  |    |     | 400 |   |                     |       |       | 400        |     | 400 |   |   |   |
| 133 |       | (1)          | (1) | 410  |    |     | 410 |   |                     |       |       | 410        |     | 410 |   |   |   |
| 134 |       |              |     | 420  |    |     | 420 |   |                     |       |       | 420        |     | 420 |   |   |   |
| 154 |       | (1)          | (1) | Net  |    |     | Net |   |                     |       |       | Net        |     | Net |   |   |   |

Short what seems to be some calendars at pretty low IV.



"Some" is an understatement. There are 3 back to back calendars (JUN/JUL, JUL/AUG, AUG/SEP) at the 370 strike and about 15 at the 410 strike going all the way out to 2008.

The credits are not the reasons to do anything with options and you are focusing mostly on what is winning in your position. As you stated, the stock has been giving back hard earned profits, steadily. That is why you have to look at the synthetic equivalents. I would not go, reactively chasing this around with a lot of adjustments. I would take a stance and ask myself, "What do I think about GOOG and over what timeframe?" I would then set up a strategy that meets a simple risk/reward profile, play for it and harvest the fruits over time, if there are any. If there are non and I need to adjust because of a new opinion then I will see what is available at the time.



**samban**  
Newbie

**pd options free lunch?????**  
« on: May 09, 2006, 11:34:54 AM »

Hello,  
I'm a newbie and request your opinion on an opportunity in PD, namely - sell a front month ITM call, buy same strike JAN 07 call and sell same strike Jan 07 put. this yields depending upon the strike, a credit of \$2.5 +.  
  
My question is - is the opportunity a profit opportunity or a loss opportunity (I'd really like to avoid the loss opportunity).

**pjs**  
RDCC

**pd options free lunch?????**  
« Reply #1 on: May 09, 2006, 01:35:49 PM »

samban,  
If you are just trying to do a covered call (the Jan07 long call and short put is synthetically long the underlying) then either buy the stock and sell the May 95 call or better just sell the May 95 put. Less edge cost and easier to manage 1 position.

**Ri\$k Doctor**  
Administrator

**pd options free lunch?????**  
« Reply #2 on: May 12, 2006, 02:21:20 PM »

samban,  
  
pjs is right. This is a synthetic covered write with severe risk to the downside (a synthetic short put\*). Trading by giving extra money away in the way of the wide bid/ask spreads on the options as compared to the stock is very inefficient, especially for the far dated options. At best a covered write is an income enhancement and not a very good hedge at all.  
  
\* see chapter one of free downloadable excerpt of "Options Trading: The Hidden Reality".

**tradingschule**  
Newbie  
★  
Posts: 1

**pricing - warranty germany**  
« on: May 11, 2006, 02:27:35 AM »

Hi,

i trade warrants issued by banks such as Deutsche Bank or Goldman Sachs. These warrants are traded on EUWAX Stuttgart or OTC directly with the market maker which is the bank (issuer). These warrants are priced by the market maker by some kind of model. I would like to find out what models do they use. How does the whole pricing look like. How do they estimate the implied volatility. How do they hedge. What systems do they use and so on. Do you have any interesting books or links on this topic. I'm familiar with Black-scholes and other techniques but I can not find out how does the whole thing works in real world. Do you think there is some kind of documentation available of software these banks use for pricing?

**hufra**

**pricing - warranty germany**  
« Reply #1 on: May 11, 2006, 01:13:52 PM »

Hello tradingschule,


I am not an expert in pricing derivatives. But I think we can assume the issuers of these warrants do not reinvent the wheel. Most likely they use the standard models for option pricing. An overview can be found in The Complete Guide to Option Pricing Formulas by Espen Haug. Much more important than knowing which model is actually used, is to know that, the mm/issuers will charge a hefty premium for their services (worse spreads/IV) This service is to bundle exchange traded vanilla options, exotic options, etc. into a retail gambling product, that is "safe", because some "respectable" bank is the issuers and retail investors cant lose more than their original investment.

To cut it short, I think these products are a waste of time, you better stick with the vanillas. However, in case you have found some arbitrage opportunities just let me know...

**Ri\$k Doctor**  
Administrator

**pricing - warranty germany**  
« Reply #2 on: May 12, 2006, 01:58:35 PM »

I agree with hufra and would add that whatever the issuer is buying they skew the IV low and whatever they are selling they skew the IV high. The vanilla models do not vary all that much as explained in all my books. Mostly they effect arbitrage locks like reversals/conversions and boxes. They show slight differences due to early exercise opportunities / assignment dilemmas.

|  |  |
|--|--|
| <div>alassio</div>   | <div>"crash-safe" short premium position?</div> <div>« on: April 11, 2006, 12:56:07 AM »</div> <div>Hi all</div> <div>What's your favourite "crash-safe" short premium position?</div> <div>The last months were quite favourable for my bull put credit spreads. For the next 6 months, from a fundamental point of view, I expect a bumpy ride with quite some down risk, since a lot of risk factors (inflation, oil/commodity prices, housing market, consumer sentiment, hurricane season etc.) increase the probability of a middle term correction, which could also turn out quite large (&gt;10% ?).</div> <div>Ok, assume we have to expect the bull market to end soon maybe with a large correction, what is your favourite position to profit from time decay, but could withstand a large correction?</div> <div>My current best guess is adding some OTM bear call credit spreads (which are still risky and dont' pay much) and buy some additional long wings for every OTM put credit spread, turning them into a partial backspread.</div> <div>Does anybody have better ideas?</div> |
| <div>CoachPhil</div>   | <div>"crash-safe" short premium position?</div> <div>« Reply #1 on: April 11, 2006, 09:59:27 AM »</div> <div>Sell deep OTM credit spreads and perhaps go long VIX futures. If the market crashes hard the futures will rise or spike creating a nice profit to hedge your spreads and if the market keeps going higher, we are already at really low levels so the loss will be small and only partially eat into your credits.</div> <div>I never set this up but I am thinking out loud</div>  |
| <div>Ri\$k Doctor</div>  | <div>"crash-safe" short premium position?</div> <div>« Reply #2 on: April 24, 2006, 02:39:38 PM »</div> <div>alassio: Depending where you buy the extra puts, you could be actually getting long premium. If those extra longs are far enough away, you could maintain a positive theta but they may be too far out to help.</div> <div>CoachPhil: Your approach is very creative and if you can keep track of it as some sort of a spread then all power to you.</div>  |
| <div>CoachPhil</div> <div>Jr. Member</div> <div>☆☆</div> <div>Posts: 72</div> <div></div> | <div>"crash-safe" short premium position?</div> <div>« Reply #3 on: April 24, 2006, 07:29:30 PM »</div> <div>The other possibility for selling deep OTM put spreads is to buy ATM VIX calls or slightly OTM VIX calls. For example, I sold 1215/1225 SPX Put Spreads and bought MAY 15 and 17.50 strike VIX calls.</div> <div>If the market tanks hard and VIX spikes, the VIX long callls could jump tremendously in price, hedging the put spreads in general depending on how many spreads you do. This is easier to track and simply put on the VIX calls at the same time you do the put spreads. Another trader told me the idea and I have been toying with it..</div>  |
| <div>Ri\$k Doctor</div>  | <div>"crash-safe" short premium position?</div> <div>« Reply #4 on: April 24, 2006, 09:03:06 PM »</div> <div>A slow grind down in the SPU's would be the double whammy.</div>  |

CoachPhil

"crash-safe" short premium position?

« Reply #5 on: April 25, 2006, 01:28:32 PM »

Yes this is a Black Swan VIX spike type of defense. A normal slow bleed with minimal VIX increases would not be hedged by this position.

However a caca-hitting-the-fan even where VIX spikes to 30 or 40 and the market drops 50 points or so in a few days would potentially be hedged.

The only problem I am hearing from fellow traders as we examine this scenario is that the VIX options trade off of the next month futures value of VIX or the forward volatility expectation. Some say that if VIX spikes to 40, the forward VIX rate may not move as much since people expect VIX to snap back from a spike and thus a MAY 15 Call would not budge too much if the VIX jumped to 30.

However, I find it hard to believe a MAY 15 Call would not be worth close to intrinsic or at worst a slight discount to intrinsic on such a spike.

Thoughts?

Ri\$k Doctor

"crash-safe" short premium position?

« Reply #6 on: April 25, 2006, 01:35:18 PM »

IV would no longer be a factor that deep in-the-money.

CoachPhil

"crash-safe" short premium position?

« Reply #7 on: April 25, 2006, 08:02:27 PM »

But if IV spikes to 40 tomorrow, would the MAY 15 Call be worth \$25.00 or would it be heavily discounted since it would reflect the forward VIX of JUNE by definition which might be a pullback. If the market expects the pullback would the MMs keep the MAY 15 calls really low and thus not be the hedge I hope it would be? I do not think so but I am in disagreement with others and since this is a new option product I have no backtesting to determine the answer.

Ri\$k Doctor

"crash-safe" short premium position?

« Reply #8 on: April 26, 2006, 08:17:08 AM »

The options most likely trade off the futures.

What is the natural hedge for the futures contract?  
Straddles and nearest strangles in the SPX.

When shorting that premium, the margin his huge and therefore MMs are willing to pay a lot less for the futures contract and consequently the options combos (the synthetic futures). The combos (call minus put at each strike) should therefore remain discounted. It is discounted now, anyway.



Ri\$K Doctor

GOOG For April  
« on: March 22, 2006, 10:42:49 AM »

What do you want to do?



In RD1 we are buying the APR 370/390 Call Vertical for 3 and change.



GoldenBear  
RD3

GOOG For April  
« Reply #1 on: March 22, 2006, 05:25:10 PM »

I can see the price is currently at a level of support, but I can not shake the bearish feeling that I have about this stock....especially if the CEO is planning any more public speaking engagements. (It seems that everytime he opens his mouth, the stock takes another beating...)

GoldenBear  
RD3

GOOG For April  
« Reply #2 on: March 23, 2006, 07:10:07 PM »

Well, now.... if they are going to add GOOG to the S&P 500, let's get bullish !

Ri\$k Doctor

GOOG For April  
« Reply #3 on: March 29, 2006, 08:44:23 AM »

How do you want to play it?



In RD1 we are selling the 430/450 Vertical for 3 and change to basically have on this wingspread configuration for free but the package is going for 10ish.





|    | C    | D            | E   | F       | G   | H   | K    | L               | M   | N              | O   | P   | Q | R | S                   | V     | X   | Z     | AA               |
|----|------|--------------|-----|---------|-----|-----|------|-----------------|-----|----------------|-----|-----|---|---|---------------------|-------|-----|-------|------------------|
| 2  |      | Apr          | May | Jun     |     |     |      |                 |     |                |     |     |   |   | Interest Rate       | 4.49% |     | 49.0% | Implied V        |
| 10 |      |              |     |         |     |     |      |                 |     |                |     |     |   |   |                     |       |     |       |                  |
| 11 |      |              |     |         |     |     |      |                 |     |                |     |     |   |   |                     |       |     |       |                  |
| 12 |      | call points  |     | \$ Risk |     |     |      |                 |     |                |     |     |   |   |                     |       |     |       |                  |
| 13 |      |              |     | PivotK  | 400 |     |      |                 |     |                |     |     |   |   |                     |       |     |       |                  |
| 14 |      | Month        | Apr |         |     |     | y    |                 |     |                |     |     |   |   |                     |       |     |       |                  |
| 15 |      | Raw Position |     |         |     |     |      |                 |     |                |     |     |   |   |                     |       |     |       |                  |
| 16 | nC   | rC           | Adj | Cur     | K   | Cur | nP   | Butterfly Value | K   | Position Value |     |     |   |   | Black/Scholes Value |       |     |       | Black/Scho Value |
| 35 |      | 10           |     | 10      | 370 |     | 10   | 0.68            | 370 | \$ -           |     |     |   |   | 42.22               |       | 370 |       | 3.49             |
| 36 |      |              |     |         | 380 |     |      | 0.82            | 380 | \$ 8.18        | 10  | 10  |   |   | 34.39               |       | 380 |       | 5.64             |
| 37 |      | (10)         |     | (10)    | 390 |     | (10) | 0.91            | 390 | \$ 18.23       | 20  | 20  |   |   | 27.38               |       | 390 |       | 8.61             |
| 38 |      |              |     |         | 400 |     |      | 0.95            | 400 | \$ 19.06       | 20  | 20  |   |   | 21.27               |       | 400 |       | 12.49            |
| 39 |      |              |     |         | 410 |     |      | 0.94            | 410 | \$ 18.79       | 20  | 20  |   |   | 16.13               |       | 410 |       | 17.32            |
| 40 |      |              |     |         | 420 |     |      | 0.88            | 420 | \$ 17.53       | 20  | 20  |   |   | 11.92               |       | 420 |       | 23.09            |
| 41 | (10) | (10)         |     | (10)    | 430 |     |      | 0.78            | 430 | \$ 15.53       | 20  | 20  |   |   | 8.58                |       | 430 |       | 29.74            |
| 42 |      |              |     |         | 440 |     |      | 0.66            | 440 | \$ 6.56        | 10  | 10  |   |   | 6.03                |       | 440 |       | 37.16            |
| 43 | 10   | 10           |     | 10      | 450 |     |      | 0.53            | 450 | \$ -           |     |     |   |   | 4.12                |       | 450 |       | 45.24            |
| 44 |      |              |     |         | 460 |     |      | 0.41            | 460 | \$ -           |     |     |   |   | 2.75                |       | 460 |       | 53.85            |
| 58 |      |              |     |         | 600 |     |      |                 |     |                |     |     |   |   | 0.00                |       | 600 |       | 190.82           |
| 59 |      |              |     |         | Net |     |      |                 | Net | \$ 103.87      | 120 | 120 |   |   |                     |       | Net |       |                  |



|    |      |              |      |         |     |     |      |                 |     |                |    |    |      |                     |                     |       |            |                  |           |        |
|----|------|--------------|------|---------|-----|-----|------|-----------------|-----|----------------|----|----|------|---------------------|---------------------|-------|------------|------------------|-----------|--------|
|    | C    | D            | E    | F       | G   | H   | K    | L               | M   | N              | O  | P  | Q    | R                   | S                   | V     | X          | Z                | AA        |        |
| 2  |      | Apr          | May  | Jun     |     |     |      |                 |     |                |    |    |      |                     | Interest Rate       | 4.49% |            | 49.0%            | Implied V |        |
| 10 |      |              |      |         |     |     |      |                 |     |                |    |    |      |                     |                     |       |            |                  |           |        |
| 11 |      |              |      |         |     |     |      |                 |     |                |    |    |      |                     |                     |       |            |                  |           |        |
| 12 |      | call points  |      | \$ Risk |     |     |      |                 |     |                |    |    |      |                     |                     |       |            |                  |           |        |
| 13 |      |              |      | PivotK  | 400 |     |      |                 |     |                |    |    |      |                     |                     |       |            |                  |           |        |
| 14 |      | Month        | Apr  |         |     |     | y    |                 |     |                |    |    |      |                     |                     |       |            |                  |           |        |
| 15 |      | Raw Position |      |         |     |     |      |                 |     |                |    |    |      |                     |                     |       |            |                  |           |        |
| 16 | nC   | rC           | Adj  | Cur     | K   | Cur | nP   | Butterfly Value | K   | Position Value |    |    |      | Butterfly Dissector | Black/Scholes Value |       | Work Sheet | Black/Scho Value |           |        |
|    |      |              |      |         |     |     |      |                 |     |                |    |    |      | Bfly1               | Bfly2               | Bfly3 | C          | K                | P         |        |
| 35 |      | 10           |      | 10      | 370 |     | 10   | 0.68            | 370 | \$ -           |    |    |      |                     |                     |       |            | 370              |           | 3.49   |
| 36 |      | (20)         | (20) |         | 380 |     | (20) | 0.82            | 380 | \$ 8.18        | 10 | 10 |      |                     |                     |       |            | 380              |           | 5.64   |
| 37 |      | 10           | 20   | (10)    | 390 |     | 10   | 0.91            | 390 | \$ -           |    | 20 | (20) |                     |                     |       |            | 390              |           | 8.61   |
| 38 |      |              |      |         | 400 |     |      | 0.95            | 400 | \$ -           |    | 20 | (20) |                     |                     |       |            | 400              |           | 12.49  |
| 39 |      |              |      |         | 410 |     |      | 0.94            | 410 | \$ -           |    | 20 | (20) |                     |                     |       |            | 410              |           | 17.32  |
| 40 |      |              |      |         | 420 |     |      | 0.88            | 420 | \$ -           |    | 20 | (20) |                     |                     |       |            | 420              |           | 23.09  |
| 41 | 10   | 10           | 20   | (10)    | 430 |     |      | 0.78            | 430 | \$ -           |    | 20 | (20) |                     |                     |       |            | 430              |           | 29.74  |
| 42 | (20) | (20)         | (20) |         | 440 |     |      | 0.66            | 440 | \$ 6.56        | 10 | 10 |      |                     |                     |       |            | 440              |           | 37.16  |
| 43 | 10   | 10           |      | 10      | 450 |     |      | 0.53            | 450 | \$ -           |    |    |      |                     |                     |       |            | 450              |           | 45.24  |
| 44 |      |              |      |         | 460 |     |      | 0.41            | 460 | \$ -           |    |    |      |                     |                     |       |            | 460              |           | 53.85  |
| 58 |      |              |      |         | 600 |     |      |                 |     |                |    |    |      |                     |                     |       |            | 600              |           | 190.82 |
| 59 |      |              |      |         | Net |     |      |                 |     |                |    |    |      |                     |                     |       |            | Net              |           |        |
| 60 |      |              |      |         |     |     |      |                 |     |                |    |    |      |                     |                     |       |            |                  |           |        |

Selling 20 Condors for 9ish because I am going away. I will leave the two cheap 10-lot butterflies on the ends for a cheap shot.

**Clarification:**The 380/390/430/440 Call Condor is showing a natural market quote of 3.70-5.00 and the Put Condor is 4.20-5.40. The averages are 3.95-5.20 with a middle of 4.60ish. GOOG butterflies should be no more than .50 wide so the market is about 4.35 bid. Now on 20 that is like 8.70 on our original 10 lot base quantity (running credit of \$8700).

GOOGLE INC [GOOG](#) Stock

| Last Price | Today's Change | Bid    | Ask    | Day High | Day Low | Volume    | BUY | SELL |
|------------|----------------|--------|--------|----------|---------|-----------|-----|------|
| 405.75     | +1.41 (+0.35%) | 405.70 | 405.75 | 414.57   | 403.51  | 6,920,536 |     |      |

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Options Expiration: April 22, 2006

|                       | Calls                 |               |        |            |       |       |       |              |       | Puts  |       |            |        |               |                       |                       |  |  |
|-----------------------|-----------------------|---------------|--------|------------|-------|-------|-------|--------------|-------|-------|-------|------------|--------|---------------|-----------------------|-----------------------|--|--|
|                       | Symbol                | Open Interest | Volume | Net Change | Last  | Bid   | Ask   | Strike Price | Bid   | Ask   | Last  | Net Change | Volume | Open Interest | Symbol                |                       |  |  |
| <a href="#">Trade</a> | <a href="#">GGDDJ</a> | 5,124         | 302    | 1.80       | 59.60 | 58.70 | 59.50 | 350.0        | 2.60  | 2.70  | 2.60  | 0.05       | 1,792  | 14,843        | <a href="#">GGDPJ</a> | <a href="#">Trade</a> |  |  |
| <a href="#">Trade</a> | <a href="#">GGDDL</a> | 10,440        | 250    | 1.10       | 50.10 | 50.00 | 50.70 | 360.0        | 3.80  | 4.00  | 3.90  | 0.00       | 2,183  | 17,784        | <a href="#">GGDPL</a> | <a href="#">Trade</a> |  |  |
| <a href="#">Trade</a> | <a href="#">GGDDN</a> | 11,089        | 384    | 1.50       | 42.00 | 41.70 | 42.40 | 370.0        | 5.50  | 5.70  | 5.60  | 0.10       | 1,000  | 15,446        | <a href="#">GGDPN</a> | <a href="#">Trade</a> |  |  |
| <a href="#">Trade</a> | <a href="#">GOPDP</a> | 14,602        | 1,675  | 0.20       | 33.30 | 34.00 | 34.70 | 380.0        | 7.70  | 8.00  | 7.90  | 0.40       | 1,697  | 10,944        | <a href="#">GOPPP</a> | <a href="#">Trade</a> |  |  |
| <a href="#">Trade</a> | <a href="#">GOPDR</a> | 20,778        | 1,103  | 1.80       | 27.70 | 27.20 | 27.50 | 390.0        | 10.80 | 11.00 | 10.90 | 0.40       | 1,746  | 7,706         | <a href="#">GOPPR</a> | <a href="#">Trade</a> |  |  |
| <a href="#">Trade</a> | <a href="#">GOPDT</a> | 16,544        | 2,779  | 1.90       | 21.40 | 21.00 | 21.30 | 400.0        | 14.70 | 14.80 | 14.70 | -0.20      | 2,380  | 5,032         | <a href="#">GOPPT</a> | <a href="#">Trade</a> |  |  |
| <a href="#">Trade</a> | <a href="#">GOPDB</a> | 9,517         | 3,600  | 1.60       | 15.80 | 15.80 | 16.00 | 410.0        | 19.20 | 19.50 | 19.10 | 0.00       | 1,539  | 2,124         | <a href="#">GOPPB</a> | <a href="#">Trade</a> |  |  |
| <a href="#">Trade</a> | <a href="#">GOPDD</a> | 12,370        | 3,892  | 1.50       | 11.60 | 11.40 | 11.60 | 420.0        | 24.90 | 25.20 | 25.10 | -0.20      | 811    | 1,936         | <a href="#">GOPPD</a> | <a href="#">Trade</a> |  |  |
| <a href="#">Trade</a> | <a href="#">GOPDF</a> | 7,320         | 2,931  | 1.30       | 8.20  | 8.10  | 8.20  | 430.0        | 31.40 | 31.80 | 31.60 | 0.00       | 210    | 1,176         | <a href="#">GOPPF</a> | <a href="#">Trade</a> |  |  |
| <a href="#">Trade</a> | <a href="#">GOPDH</a> | 8,072         | 2,202  | 0.90       | 5.30  | 5.40  | 5.60  | 440.0        | 38.80 | 39.30 | 39.20 | -0.90      | 94     | 356           | <a href="#">GOPPH</a> | <a href="#">Trade</a> |  |  |
| <a href="#">Trade</a> | <a href="#">GOPDJ</a> | 6,737         | 2,481  | 0.71       | 3.60  | 3.50  | 3.70  | 450.0        | 46.90 | 47.50 | 49.00 | 1.00       | 97     | 389           | <a href="#">GOPPJ</a> | <a href="#">Trade</a> |  |  |
| <a href="#">Trade</a> | <a href="#">GOPDL</a> | 6,890         | 1,251  | 0.56       | 2.35  | 2.30  | 2.40  | 460.0        | 55.70 | 56.40 | 56.20 | -1.00      | 168    | 165           | <a href="#">GOPPL</a> | <a href="#">Trade</a> |  |  |
| <a href="#">Trade</a> | <a href="#">GOPDG</a> | 4,758         | 2,076  | 0.45       | 1.50  | 1.45  | 1.50  | 470.0        | 64.90 | 65.50 | 62.80 | -5.60      | 40     | 85            | <a href="#">GOPPG</a> | <a href="#">Trade</a> |  |  |

GOOG For April

« Reply #5 on: April 21, 2006, 01:04:22 PM »

"Charles here waiting for a plane to catch and Trader5 has been kind enough to email me updates on my Blackberry and post all of this. GOOG has had a good earnings announcement:

Google reports surge in earnings and revenue  
By Bambi Francisco  
Last Update: 4:10 PM ET Apr 20, 2006  
SAN FRANCISCO (MarketWatch) - Google Inc. (GOOG : google inc cl a  
Last: 415.00+4.50+1.10%  
4:10pm 04/20/2006  
Delayed quote data

GOOG415.00, +4.50, +1.1%) reported first-quarter profit rose 60% to \$592 million, or \$1.95 a share, from \$369 million, or \$1.29, a year earlier. Those results include stock-option costs and other expenses. Analysts expected Google to earn \$1.75 a share, on that basis. Sales excluding expenses Google pays to its distribution partners grew to \$1.53 billion up 92% from last year, and above consensus expectations of \$1.47 billion. Shares of Google shot as high as \$429.50 a share in after-hours action.

Our 10 lot 430/440/450 butterfly has come to life. If GOOG expires near the High of the day, we will be out of the money. Near the low, we willhave 5 more points 10 times.

Trader5 will take screenshots of the options chains every hour on hour for the last 5 hours of the day. We will take what the market decides what we shall have by liquidating 2 butterflies each hour. We will not trade it synthetically so that we avoid creating Pin Risk. We may take \$9.90 for all of the 430/440 call verticals if ever available (assume a fill if 440 putis offered at .05 or .10). In that event we will liquidate the 440/450 call verticals at the times mentioned above.



Just arrived back and found that Trader5 was not going to be able to get some of those screenshots. The average sales price would have been about 6.00 for an additional \$6000 profit. Trader5 was able to get a few screenshots so here they are, but the first is a chart showing the hourly levels and some analysis of supporting estimates of the butterfly values at each hour where the screenshots were not available.



|    | A     | B      | C         | D               | E        |
|----|-------|--------|-----------|-----------------|----------|
| 1  | Time  | GOOG   | Away From | Butterfly Value |          |
| 2  | (EST) | Price  | Body      | Actual          | Estimate |
| 3  | 12:00 | 442.11 | 2.11      |                 | 4.75     |
| 4  |       |        |           |                 |          |
| 5  |       |        |           |                 |          |
| 6  |       |        |           |                 |          |
| 7  | 13:00 | 443.79 | 3.79      |                 | 4.35     |
| 8  |       |        |           |                 |          |
| 9  |       |        |           |                 |          |
| 10 | 13:48 | 441.43 | 1.43      | 6.55            |          |
| 11 | 14:00 | 440.15 | 0.15      |                 | 6.60     |
| 12 | 14:01 | 441.68 | 1.68      | 6.50            |          |
| 13 | 14:08 | 440.00 | 0.00      | 7.00            |          |
| 14 |       |        |           |                 |          |
| 15 | 15:00 | 438.78 | (1.22)    |                 | 7.00     |
| 16 | 15:20 | 438.66 | (1.34)    | 7.25            |          |
| 17 |       |        |           |                 |          |
| 18 | 15:45 | 439.23 | (0.77)    | 8.00            |          |
| 19 | 16:00 | 437.10 | (2.90)    | 6.90            | 6.90     |
| 20 |       |        |           |                 |          |
| 21 |       |        |           | Average         | 5.92     |

13:48:23 EST  
Connected

STOCK AND OPTION QUOTE

symbol description information layouts

GOOG GOOGLE INC CL A Easy to Borrow NASDAQ Last X

UNDERLYING

LAST X NET CHNG BID X ASK X SIZE VOLUME OPEN

441.43 Q +26.43 441.32 P 441.30 C 1 x 10 15,816,459 448.90

TRADE GRID

OPTIONS Single

CALLS PUTS

LAST X NET CHNG BID X ASK X EXP STRIKE BID X ASK X

APR 06 (0) 100

21.30 I +10.70 21.00 A 21.40 A APR 06 420 0.1 .05 I

11.40 C +4.60 11.10 C 11.50 A APR 06 430 .10 C .15 C

2.35 I -1.45 2.40 C 2.50 I APR 06 440 1.05 C 1.15 C

.15 C -2.10 .10 C .15 C APR 06 450 8.70 A 8.90 A

.05 C -1.00 0.0 B .05 C APR 06 460 18.60 A 19.10 P

14:01:11 EST  
Connected

STOCK AND OPTION QUOTE

symbol description CL A Easy to Borrow NASDAQ Last X

GOOG GOOGLE INC

UNDERLYING

LAST X NET CHNG BID X ASK X SIZE VOLUME OPEN

441.68 Q +26.68 441.68 C 441.69 P 5 x 1 16,216,490 448.90

TRADE GRID

OPTIONS Single

CALLS

LAST X NET CHNG BID X ASK X EXP STRIKE BID X ASK X

APR 06 (0) 100

22.00 I +11.40 21.90 A 22.20 A APR 06 420 0.1 .05 I

12.00 I +5.20 11.70 C 12.00 A APR 06 430 .05 B .10 A

2.70 C -1.10 2.70 I 2.75 C APR 06 440 .85 C .90 P

.15 X -2.10 .10 C .15 C APR 06 450 8.20 A 8.50 A

.05 C -1.00 0.0 B .05 C APR 06 460 18.00 A 18.50 A



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|------------|-----------------|--------|--------|----------|---------|------------|--------------------------------|
| 436.88     | +21.88 (+5.27%) | 436.88 | 436.86 | 450.72   | 436.17  | 22,109,768 | <div>BUY</div> <div>SELL</div> |

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Options Expiration: April 22, 2006

| Calls                 |                       |               |        |            |       |       |       | Puts         |       |       |       |            |        |               |                       |
|-----------------------|-----------------------|---------------|--------|------------|-------|-------|-------|--------------|-------|-------|-------|------------|--------|---------------|-----------------------|
|                       | Symbol                | Open Interest | Volume | Net Change | Last  | Bid   | Ask   | Strike Price | Bid   | Ask   | Last  | Net Change | Volume | Open Interest | Symbol                |
| <a href="#">Trade</a> | <a href="#">GOPDB</a> | 14,976        | 5,603  | 10.90      | 26.90 | 26.90 | 27.40 | 410.0        | 0.00  | 0.05  | 0.05  | -11.45     | 477    | 11,112        | <a href="#">GOPPB</a> |
| <a href="#">Trade</a> | <a href="#">GOPDD</a> | 17,594        | 5,758  | 6.40       | 17.00 | 17.00 | 17.10 | 420.0        | 0.00  | 0.05  | 0.05  | -15.35     | 2,072  | 3,361         | <a href="#">GOPPD</a> |
| <a href="#">Trade</a> | <a href="#">GOPDF</a> | 12,325        | 10,548 | 0.30       | 7.10  | 6.90  | 7.20  | 430.0        | 0.00  | 0.05  | 0.05  | -21.05     | 26,882 | 3,473         | <a href="#">GOPPF</a> |
| <a href="#">Trade</a> | <a href="#">GOPDH</a> | 14,396        | 52,149 | -3.75      | 0.05  | 0.00  | 0.05  | 440.0        | 3.00  | 3.40  | 3.20  | -24.80     | 63,350 | 1,078         | <a href="#">GOPPH</a> |
| <a href="#">Trade</a> | <a href="#">GOPDJ</a> | 10,659        | 41,503 | -2.20      | 0.05  | 0.00  | 0.05  | 450.0        | 12.60 | 13.30 | 13.10 | -24.90     | 24,284 | 1,190         | <a href="#">GOPPJ</a> |
| <a href="#">Trade</a> | <a href="#">GOPDL</a> | 8,672         | 12,411 | -1.00      | 0.05  | 0.00  | 0.05  | 460.0        | 22.60 | 23.30 | 23.20 | -23.30     | 1,887  | 244           | <a href="#">GOPPL</a> |
| <a href="#">Trade</a> | <a href="#">GOPDG</a> | 7,225         | 1,647  | -0.40      | 0.05  | 0.00  | 0.05  | 470.0        | 32.60 | 33.30 | 27.10 | -34.40     | 51     | 105           | <a href="#">GOPPG</a> |

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GOOGLE INC [GOOG](#) Stock

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| Last Price | Today's Change  | Bid    | Ask    | Day High | Day Low | Volume     |                                |
|------------|-----------------|--------|--------|----------|---------|------------|--------------------------------|
| 439.23     | +24.23 (+5.84%) | 439.23 | 439.27 | 450.72   | 436.17  | 21,076,413 | <div>BUY</div> <div>SELL</div> |

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| Calls                 |                       |               |        |            |       |       |       | Puts         |       |       |       |            |        |               |                       |
|-----------------------|-----------------------|---------------|--------|------------|-------|-------|-------|--------------|-------|-------|-------|------------|--------|---------------|-----------------------|
|                       | Symbol                | Open Interest | Volume | Net Change | Last  | Bid   | Ask   | Strike Price | Bid   | Ask   | Last  | Net Change | Volume | Open Interest | Symbol                |
| <a href="#">Trade</a> | <a href="#">GOPDB</a> | 14,976        | 5,464  | 13.20      | 29.20 | 29.20 | 29.60 | 410.0        | 0.00  | 0.05  | 0.05  | -11.45     | 474    | 11,112        | <a href="#">GOPPB</a> |
| <a href="#">Trade</a> | <a href="#">GOPDD</a> | 17,594        | 5,306  | 8.30       | 18.90 | 19.20 | 19.50 | 420.0        | 0.00  | 0.05  | 0.05  | -15.35     | 2,072  | 3,361         | <a href="#">GOPPD</a> |
| <a href="#">Trade</a> | <a href="#">GOPDF</a> | 12,325        | 8,858  | 2.70       | 9.50  | 9.10  | 9.50  | 430.0        | 0.00  | 0.05  | 0.05  | -21.05     | 25,985 | 3,473         | <a href="#">GOPPF</a> |
| <a href="#">Trade</a> | <a href="#">GOPDH</a> | 14,396        | 47,254 | -3.30      | 0.50  | 0.45  | 0.50  | 440.0        | 1.20  | 1.50  | 1.20  | -26.80     | 61,171 | 1,078         | <a href="#">GOPPH</a> |
| <a href="#">Trade</a> | <a href="#">GOPDJ</a> | 10,659        | 41,369 | -2.20      | 0.05  | 0.00  | 0.05  | 450.0        | 10.40 | 11.10 | 10.40 | -27.60     | 24,028 | 1,190         | <a href="#">GOPPJ</a> |
| <a href="#">Trade</a> | <a href="#">GOPDL</a> | 8,672         | 12,406 | -1.00      | 0.05  | 0.00  | 0.05  | 460.0        | 20.50 | 21.00 | 23.30 | -23.20     | 1,826  | 244           | <a href="#">GOPPL</a> |
| <a href="#">Trade</a> | <a href="#">GOPDG</a> | 7,225         | 1,647  | -0.40      | 0.05  | 0.00  | 0.05  | 470.0        | 30.50 | 31.00 | 27.10 | -34.40     | 51     | 105           | <a href="#">GOPPG</a> |

| STOCK AND OPTION QUOTE |             |          |                   |                |                 |            |        |
|------------------------|-------------|----------|-------------------|----------------|-----------------|------------|--------|
| symbol                 | description |          | information layer |                |                 |            |        |
| GOOG                   | GOOGLE INC  |          | CL A              | Easy to Borrow |                 | NASDAQ     | Last X |
| UNDERLYING             |             |          |                   |                |                 |            |        |
|                        | LAST X      | NET CHNG | BID X             | ASK X          | SIZE            | VOLUME     | OPEN   |
|                        | 440.00 Q    | +25.00   | 440.00 Q          | 440.07 P       | 15 x 1          | 16,705,164 | 440.90 |
| TRADE GRID             |             |          |                   |                |                 |            |        |
| OPTIONS                |             |          |                   |                |                 |            |        |
| Butterfly              |             |          |                   |                |                 |            |        |
| CALLS                  |             |          |                   |                |                 |            |        |
|                        | LAST X      | NET CHNG | BID X             | ASK X          | STRIKE          | BID X      | ASK X  |
| APR 06 (C) 100         |             |          |                   |                |                 |            |        |
|                        | 0           | -1.80    | 1.40              | 1.20           | 410 / 420 / 430 | 1.05       | 1.15   |
|                        | 75          | -0.06    | 0.75              | 1.50           | 420 / 430 / 440 | 1.10       | 1.45   |
|                        | 7.40        | +5.25    | 6.95              | 7.20           | 430 / 440 / 450 | 6.65       | 7.50   |
|                        | 1.50        | +1.15    | 1.45              | 1.65           | 440 / 450 / 460 | 0.80       | 2.40   |
|                        | 05          | -0.55    | 0.05              | 1.15           | 450 / 460 / 470 | 1.10       | 1.10   |

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Options

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GOOGLE INC [GOOG](#) Stock

| Last Price | Today's Change  | Bid    | Ask    | Day High | Day Low | Volume     |                                |
|------------|-----------------|--------|--------|----------|---------|------------|--------------------------------|
| 438.66     | +23.66 (+5.70%) | 438.66 | 438.75 | 450.72   | 436.88  | 18,980,490 | <div>BUY</div> <div>SELL</div> |

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| Calls                 |                       |               |        |            |       |       |       | Puts         |       |       |       |            |        |               |                       |
|-----------------------|-----------------------|---------------|--------|------------|-------|-------|-------|--------------|-------|-------|-------|------------|--------|---------------|-----------------------|
|                       | Symbol                | Open Interest | Volume | Net Change | Last  | Bid   | Ask   | Strike Price | Bid   | Ask   | Last  | Net Change | Volume | Open Interest | Symbol                |
| <a href="#">Trade</a> | <a href="#">GOPDB</a> | 14,976        | 5,131  | 12.00      | 28.00 | 28.60 | 29.00 | 410.0        | 0.00  | 0.05  | 0.05  | -11.45     | 463    | 11,112        | <a href="#">GOPPB</a> |
| <a href="#">Trade</a> | <a href="#">GOPDD</a> | 17,594        | 4,744  | 8.10       | 18.70 | 19.00 | 19.00 | 420.0        | 0.00  | 0.05  | 0.05  | -15.35     | 2,049  | 3,361         | <a href="#">GOPPD</a> |
| <a href="#">Trade</a> | <a href="#">GOPDF</a> | 12,325        | 7,033  | 2.10       | 8.90  | 8.70  | 8.90  | 430.0        | 0.10  | 0.15  | 0.10  | -21.00     | 18,811 | 3,473         | <a href="#">GOPPF</a> |
| <a href="#">Trade</a> | <a href="#">GOPDH</a> | 14,396        | 34,514 | -3.00      | 0.80  | 0.80  | 0.85  | 440.0        | 1.95  | 2.00  | 1.95  | -26.05     | 49,087 | 1,078         | <a href="#">GOPPH</a> |
| <a href="#">Trade</a> | <a href="#">GOPDJ</a> | 10,659        | 41,114 | -2.20      | 0.05  | 0.00  | 0.05  | 450.0        | 11.00 | 11.60 | 11.80 | -26.20     | 23,455 | 1,190         | <a href="#">GOPPJ</a> |
| <a href="#">Trade</a> | <a href="#">GOPDL</a> | 8,672         | 12,385 | -1.00      | 0.05  | 0.00  | 0.05  | 460.0        | 21.00 | 21.60 | 21.80 | -24.70     | 1,818  | 244           | <a href="#">GOPPL</a> |
| <a href="#">Trade</a> | <a href="#">GOPDG</a> | 7,225         | 1,647  | -0.40      | 0.05  | 0.00  | 0.05  | 470.0        | 31.00 | 31.60 | 27.10 | -34.40     | 51     | 105           | <a href="#">GOPPG</a> |



gpe

**opinion on naked premium selling approach?**

« **on:** January 31, 2006, 07:29:45 AM »

Charles,

I have a well capitalized account, and have evolved to a style of selling naked puts, for which I'd appreciate your feedback. (I now have more time available and have been doing a lot of reading recently, including CWS; I'm interested in branching out more, as appropriate). My main interest is in generating income.

My basic approach has been to sell monthly ATM puts on the SPX, and a few other major indexes, and to buy protection '10%' on the downside. I've been doing this 2 for 1 on the entire value of the account for both the selling and the protection. I've vacillated between buying the protection monthly, or buying it for longer time periods for greater protection against market drift downwards. I've also wondered if writing at 3 to 1, and perhaps adjusting the protection percentage could be more optimal.

Is the above a solid approach for generating income? Any suggestions?

Thanks,

George

CoachPhil

**opinion on naked premium selling approach?**

« **Reply #1 on:** February 01, 2006, 01:05:23 PM »

Well if you are selling puts and buying further OTM puts, then you are not selling naked premium, these are credit spreads and if you choose to go this route, a better alternative to selling naked puts.

The only problem I see is that you are selling ATM puts on the SPX and then looking to buy puts 10% otm to limit your risk. 10% on the SPX is HUGE and you will be paying very little for those puts but have a huge margin. For example, you could sell the MAR SPX 1280 puts right now for \$18.50 and 10% down on the SPX puts you at 1150 which you can buy for \$1.40 and a net credit of \$17.10 per spread..... but a margin requirement of \$13,000 minus the credit received per spread.

The return looks nice, but the SPX can easily move 17 points and you are taking on a lot of risk. Remember the risk is not only measured by the capital at risk but by the chances for success. With ATM options you are pretty much in a 50-50 coin toss as to whether the index will move up or down.

To play this strategy better you may want to look into selling DEEP OTM puts and then buying slightly deeper OTM puts as protection. The credit received is lower BUT, the chances of those puts expiring OTM are so much higher so you can earn more credits more often. You can adjust the width of the spreads depending on your risk tolerance and amount of capital but the real importance here comes in risk management.

A losing spread can wipe out a lot of profits so you need good risk management in place to ensure that if the market is moving against you, you either get out or make an adjustment.

I sell credit spreads OTM and I am usually 60 - 70 points OTM or more on average and when the market swings I adjust to protect myself.

I just feel that selling ATM options has a higher risk given the wild short-term swings of the market and downward moves will have IV increases which could hurt you twice. A deep OTM spread not too wide will mostly offset vega.

Just some food for thought..

Phil

Ri\$k Doctor

**opinion on naked premium selling approach?**

« **Reply #2 on:** February 03, 2006, 10:49:07 AM »

Both of you have strategies that you have had success with and feel comfortable with. It is obvious that in the event of a nightmare move down that both of you would suffer greatly, much more than you will gain in any single month but the profitable months are more common for you.

My recommendation for gpe is to find a lower strike to buy especially if you start increasing your size. CoachPhil's concern about the margin would not be a concern for gpe because it is less than the customary naked margin requirement.

In my 25 years, I have seen them carry out, on stretchers, the victims of naked short options positions. It is only a matter of time when they get you for all you have. I have been there myself. You are close to 7 figures. Wonderful. But what will your size be when that figure is double, triple, etc.? The formula goes like this: You will be trading a lot bigger if you've been successful you may grow to 20 lots of 50s or 100s then one day the S&Ps drop 100 points a day for days.

You can increase your size quite a bit if you are not naked. Develop a safe habit and put some clothes on. What is the hurry anyway? Don't let greed take away all your hard earned/saved capital when there are terrorist threats looming all the time.

gpe

opinion on naked premium selling approach?

« Reply #3 on: February 03, 2006, 08:33:48 PM »

Charles and Phil,

Thank you both for your responses. How does the following approach sound:

Yes, I should pay more attention to trade management and protecting myself. So, let's assume the spx were at 1270. What if I sold enough contracts at 1230 (3%) down, and bought the same amount of contracts at 1190 (6%) down. I'd sell enough contracts to provide a credit of close to 2% of the value of my capital base (requires writing and buying many more contracts than I would have ever considered before). Now, I believe I can also enter conditional orders at my broker - Interactive Brokers, so that I can automatically liquidate at 1230, never placing me on the steep downwards part of the curve (and also providing a form of automatic market crash/meltdown insurance). My loss at that point would be about 4% of my cash holdings, but since the market would have declined at that point by 3% anyways, this is the risk I take for writing so many contracts 3% ITM. What am I not seeing?

By the way, the above is still an 'automatic' approach for credit selling each month. Am I likely to enhance my expected earnings by developing additional skills/techniques in credit and debit spreads, both in stocks as well as in indexes?

Thanks,

GPE

Ri\$k Doctor

opinion on naked premium selling approach?

« Reply #4 on: February 04, 2006, 05:47:11 PM »

This would be an arbitrary approach and I suspect you would get chopped up quite a bit. I suggest you place your strikes based upon support and resistance points but that is an art that you would need to debvelope. Diomonetrics may be of ionterest to you in aiding you in this endeavor (Check it out in Chapter 6 of "The Hidden Reality").

CoachPhil

opinion on naked premium selling approach?

« Reply #5 on: February 04, 2006, 08:05:42 PM »

I can only speak for myself that studying the SPX and support and resistance areas and other technical tools are what I use for strike selection. One short cut rule is to take the ATM straddle and double it and move that far from the ATM strikes since that will be a quick and dirty MM 2 sigma distribution range. Look for strikes outside that range. Combine that with support and resistance lines and you will be putting the probabilities on your side. This still requires the human touch unfortunately and cannot be automated. But it is good general approach for strike selection which should then be tailored to your own trading style.

The next key is how you react when the market moves outside that distribution before expiration and is straightforward risk management

I think Diamonetrics will be good to add to detemrine what times to possibly leg into Skip-strike FLYs as a hedge. If the market starts dropping with plenty of time left to expiration, then perhaps Diamonetrics will guide you in what strikes to select to roll into Skip-Strike-Flies.

Ri\$k Doctor

opinion on naked premium selling approach?

« Reply #6 on: February 06, 2006, 05:54:57 PM »

I concur.

gpe

opinion on naked premium selling approach?

« Reply #7 on: February 15, 2006, 07:04:55 AM »

Phil,

Thanks for your reply. Can you please expand upon your defensive strategies, especially regarding legging into a skip-strike-fly?

I've done a fair amount of modelling, and agree with your approach towards deep otm strike choices, and Charles, I've really (really!) gotten a lot out of your latest book. Where I'm having trouble connecting the dots is how a skip-strike-fly adjustment would work as an alternative to straightforward liquidation in the event of a severe downward move.

Thanks.

GPE

opinion on naked premium selling approach?

« Reply #8 on: February 15, 2006, 01:42:26 PM »

There are a few choices you can look into to hedge or adjust if a short strike is looking like it might be getting too close for comfort to the underlying index.

1. First, since I use deep OTM credit spreads I set up an arbitrary point 15 points away from my short strike as a place where I force myself to make a decision on whether I hold pat, adjust or get out, depending on time to expiration and my analysis of SPX.
2. Prior to getting to that point abvoe, I also look for technical clues as to whether any significant support or resistance has been broken or other technical analysis that tells me that the index is more likely to threaten my short strike. One small step I do is to put on some SPY or XSP puts or calls between my short strike and the index. THIS is a PARTIAL HEDGE since you cannot hedge perfectly as the cost outweighs the premium received. What this does for me is that if the index keeps moving against me, the partial hedges will earn profits which will help partially offset the cost of any adjustments I need to make. How much to spend or how many to put on depends on your credit and position. For example, if I take in \$10,000 in credit, I may decide to spend from \$2 - \$5K on partial hedges in long puts or calls or call or put spreads as a first line of defense. Not always, it depends on what I think might happen.
3. One common adjustment I make is to roll the spread out to further strikes. For example, roll my 1185/1195 bull put spread to 1175/1185 when I want a little more room between my strikes and the current index price in order to allow theta to do its thing when I am not too far from expiration. Doing this 5 weeks out is not too effective. If you put on a partial hedge, as above, the move of the market against you somewhat might mean that the partial hedge can offset part of this cost to roll down. Another thing I do is if I roll the puts down as I said above, I may then add deep OTM call spreads and convert to an Iron Condor to bring in more premium helping to finance the adjustment.
4. The Skip-Strike-Fly, a la Cottle, is simply converting your credit spread into a BUTTER (also a la Cottle '> ') by purchasing a debit spread with more distance between the strikes than the credit spread. So, if you have a 50 lot 1185/1195 put spread and the market starts to fall sharply and threaten your position, you can buy a 25 lot 1215/1195 debit spread or a 20 lot 1220/1195 debit spread, etc. Keeping the ratios the same for a FLY. Now you have a limited risk debit spread position vs. a huge limited risk credit spread position. Also, if the index is at the body near expiration you could have significant profits. I ONLY recommend this adjustment if the market starts falling sharply, using the hypothetical above, and you expect it to keep falling and land near your short strikes around expiration. The net debit of the converted FLY will still be high so it is not a cheap adjustment but it greatly reduces your risk and allows for potential large profits. Before doing this, compare it to simply closing out the spread as well which might be cheaper. Also, once you do this, your margin is freed up since you are now in a debit spread, and I would suggest selling another set of credit spreads FURTHER OTM to help reduce the cost even further. If the market keeps crashing you can adjust the new spread further while perhaps taking some profit on the adjusted FLY. I consdier this a "BREAK GLASS IN CASE OF EMERGENCY" adjustment due to the high net debit costs but still one to consider. The further from expiration you are the more it will cost naturally.
5. One other possible adjustment is to compare the cost of closing the spread vs. BOXing the spread with the call credit spread of the same strikes. Sometimes, given the wild b/a spreads of the SPX, you might get a better fill on the deep ITM CALL Credit Spread vs. the debit to close the deep OTM put spread. Not often, but it's worth looking into as a possible way of BOXing off the spread and then looking to sell more credit spreads at lower strikes to bring in more credit. This goes against intuition but SPX spreads are so wide, you never know and is worth a look. If you have time you can try an aggressive call credit spread limit order and see if it gets filled at the mid-point before closing the debit spread at a price potentially below that mid-point. BOXing the spread and selling another spread at a lower strike is just a different way of adusting the strikes lower described above. Choose the path with the least cost to you being aware of BOX risks (although this is a European option so ignore dividends and early assignment).
6. If the royal feces is hitting the fan, then shorting or going long the appropriate ES or SP futures is a good intraday emergency hedge for those unexpectetd swan events. Of course you need an account where cross-margining is allowed to give you the benefit of the hedge (usually in prop risk-based haircut lol). But some retailers will recognize the hedge intraday.

It is hard to detail exactly when to do each adjustment or when they work. I have success with adjusting the strikes down on small extended moves towards my short position (like after Katrina or during the overextended Thanksgiving rally last year) and salvage a small profit from it as the market pulls back or theta wins out. On major swings against me, which have not happened yet, the skip strike FLY is a consideration. Partial hedges are never a bad idea to slop at times. In NOV, I made more money from partial hedges than my actual SPX positions- rare but nice when you can utilize those hedges.

Well it is really hard to detail every possible scenario and action but here are some overviews.

gpe

opinion on naked premium selling approach?

« Reply #9 on: February 17, 2006, 02:00:05 PM »

Phil,

Thanks for your very detailed explanation of how you adjust. You posts have helped me significantly in my approach to my option writing this month.

Regards,

GPE

alassio  
opinion on naked premium selling approach?  
« Reply #10 on: March 06, 2006, 01:32:08 PM »

Hi all,

Since credit spreads are my "bread & butter" positions, I am always looking for even better ways to defend them in case of troubles. Thanks for listing a few proposals, some of which I didn't consider yet. Here come my few cents of accumulated techniques/experiences:

1. Rolling to next month: It is often possible to roll into next month for even money and to get far away enough before the trend reverses. This works fine if we are in a sideways market with wide swings. However, if it was the beginning of a longer countertrend, you will get soon into trouble again with the rolled position.
2. Switch put/call credit spreads: Instead of rolling, put credit spreads can be closed and new OTM call credit spreads can be opened, usually in the same month and in an amount to compensate much of the costs of the closed spreads. Works fine if the trend continues and expiration isn't too close. Risk of getting whipsawed.
3. Use long straddles as partial hedge: If we have a short strong move towards the short strike but a reversal is expected, using next month long straddles can be used as partial hedge which can profit from the reversal. Some cost may be recovered by adding further OTM credit spreads in the same month. Main risk is vega risk where the pullback doesn't come and the situation stabilizes.

I usually mix those approaches depending on my expectations of future market movement where I usually try to compensate most adjustment costs and try to avoid rolling into next months. Please comment on my current approach and feel free to suggest better alternatives.

Regards, alassio

Ri\$K Doctor  
opinion on naked premium selling approach?  
« Reply #11 on: March 20, 2006, 10:21:02 AM »

alassio: Sounds like you have a good handle on what you are doing. The backmonth straddle creates double calendarized slingshots and you are right about vega so you need to make sure IV is favorable otherwise you are better off using the front month. Depending on how far away your verticals are, cheaper strangles may become a consideration.

alassio  
opinion on naked premium selling approach?  
« Reply #12 on: March 20, 2006, 10:41:44 AM »

Yes, the straddle method didn't work well recently. Even if the move back occurred, its profits usually have been overcompensated by the vega losses. I forgot another adjustment method I use:

4. Turn a call credit spread into a backspread. Compensate the cost by an additional put credit spread. If the move continues, the previous loss can even become a profit. Main risk is falling into the hole of the backspread if the situation stabilizes at the wrong point. (Never happened yet). Last year this adjustment saved my ass several times when I thought the bull market in European markets came to a halt, but it was only a short pullback ...

Ri\$K Doctor  
opinion on naked premium selling approach?  
« Reply #13 on: March 20, 2006, 10:53:52 AM »

You could even do a little gamma scalping with the straddle.

BTW: if you do choose to futures against a vertical you have what is known as a "risk reversal or a risk conversion depending on which way it is going. Pasted below is a risk reversal where there long futures bought delta neutral against a bear spread. This is copied and pasted from the original "Options: Perception and Deception" manuscript and uses an easy example with a 50 delta vertical.

Dissection of a Risk Reversal - Seven Basic Views

Besides the original position in Figure 9-1, there are basically six alternative dissections, A. through F., using three strikes; 465, 475 & 485. The six alternative views, are listed below in Figure 9-7, followed by a description of each dissection, an explanation of the pricing of each and ending with a discussion of each alternative.

Dissected results of position in Figure 9-1.

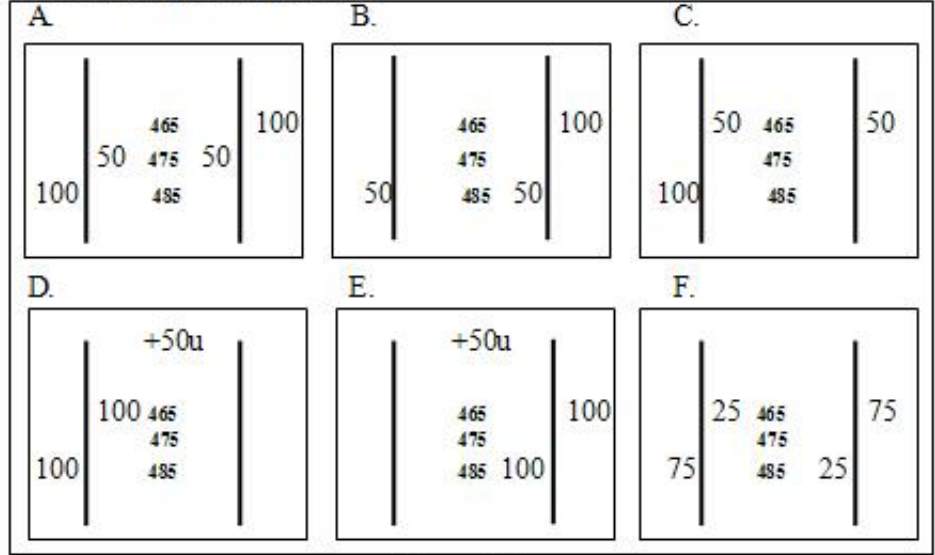


Figure 9-7

The first three forms are a byproduct of using the syntool to bring down the 50 contracts of underlying to each of the three strikes involved. In Figure 9-8, the 50 is brought down to the 475 strike yielding two spreads. On the left there is a 100x50\*475/485 call back spread. On the right there is a 50x100\*465/475 put ratio spread. In Figure 9-9 are two hockey stick graphs and below them a third which is a combined graph of the position after the dissection.

Figure 9-15  
Hockey Stick Graphs after dissections D. & E.

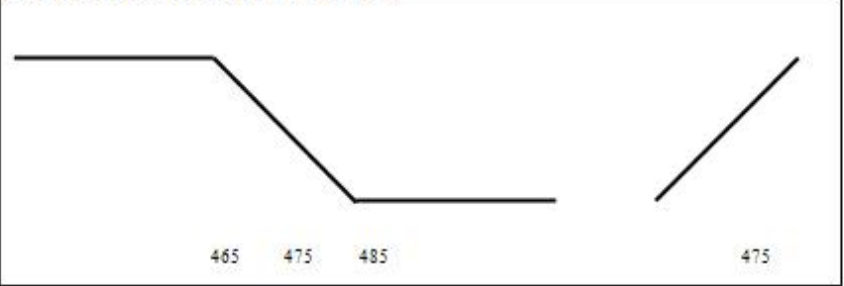


Figure 9-16

9Ninth.doc:3/21/2006:10:40:11 AM

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Risk Reversals / Risk Conversions

13

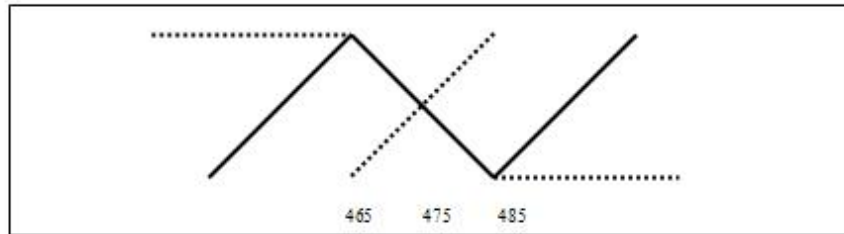
Chapter 9

Unfortunately, I am not too sure how to fuse these two graphs together. Perhaps you could find out by inquiring at:

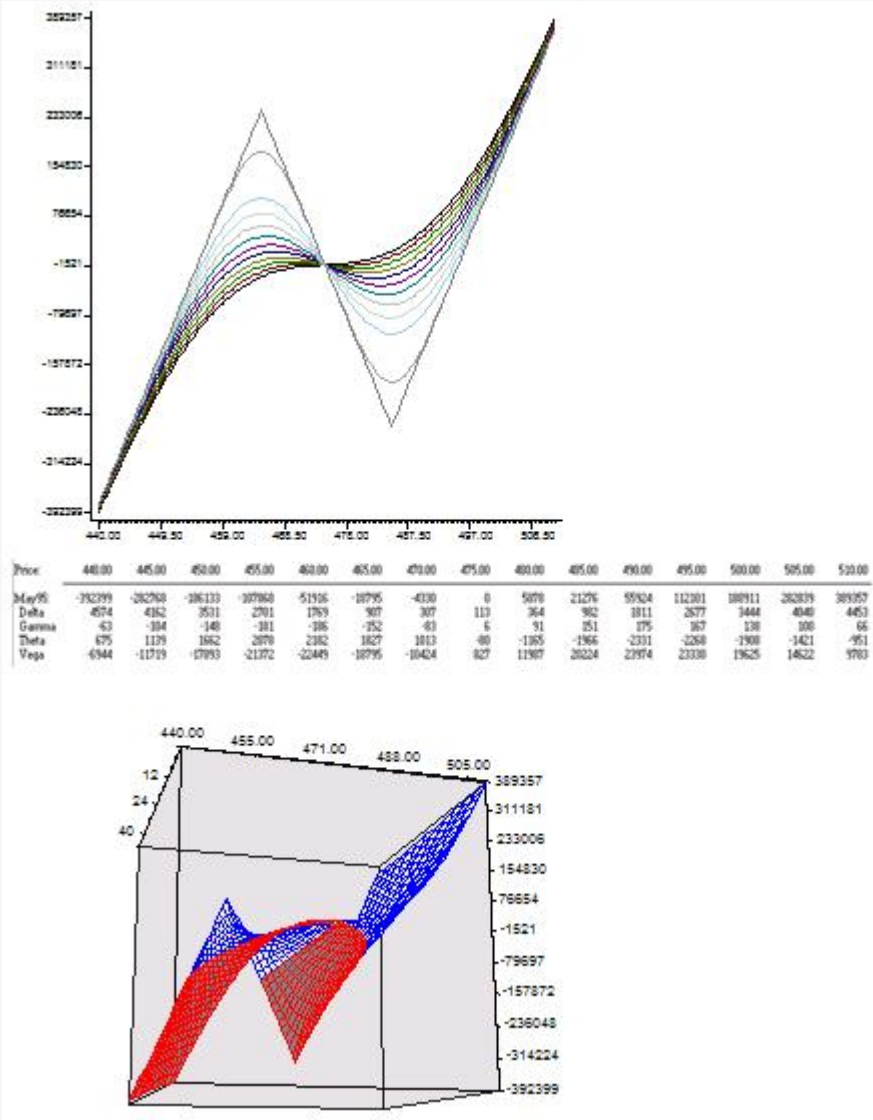
1-(800) R-O-C-K-E-T---S-C-I-E-N-T-I-S-T.

The graph probably looks something like that in Figure 9-17.

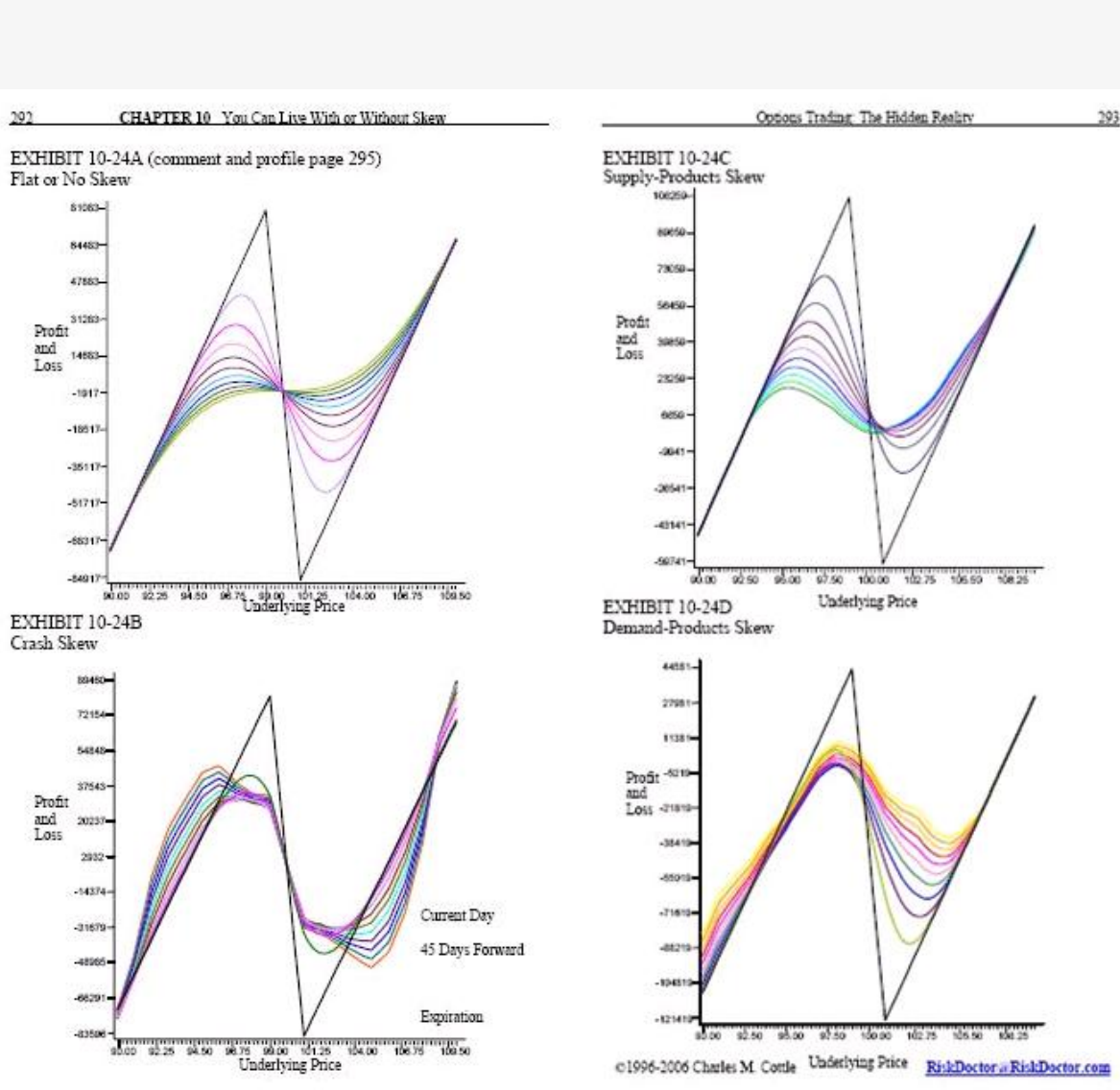
Combined Hockey Stick Graphs after dissections D. & E.







There is more to say about how skew plays a roll and the following images are from the Risk Reversal discussion in the Skew Chapter (10) in Options Trading: The Hidden Reality.



**RISK REVERSAL**

This risk reversal spread, common for Market Makers in Supply-Products, has the elements of a call back spread and a put ratio spread, so its properties will be consistent with merging those two (see Exhibit 10-24).

Flat or No Skew

| Price | 90.00  | 92.00  | 94.00  | 96.00 | 98.00 | 100.00 | 102.00 | 104.00 | 106.00 | 108.00 | 110.00 |
|-------|--------|--------|--------|-------|-------|--------|--------|--------|--------|--------|--------|
| P&L   | -10076 | -40938 | -29112 | -9371 | -693  | 0      | 981    | 6734   | 29785  | 40427  | 17079  |
| Delta | 1671   | 1297   | 177    | 443   | 112   | -1     | 131    | 489    | 140    | 1212   | 1519   |
| Gamma | -383   | -197   | -221   | -202  | -118  | 9      | 124    | 187    | 194    | 361    | 141    |
| Theta | -21    | 86     | 174    | 291   | 129   | -11    | -341   | -220   | -106   | -331   | -32    |
| Vega  | -301   | -2536  | -4124  | -4141 | -2561 | 199    | 2937   | -540   | 4512   | 3449   | 1539   |

Crash Skew

| Price | 90.00  | 92.00 | 94.00 | 96.00 | 98.00 | 100.00 | 102.00 | 104.00 | 106.00 | 108.00 | 110.00 |
|-------|--------|-------|-------|-------|-------|--------|--------|--------|--------|--------|--------|
| P&L   | -70158 | -6145 | 31825 | 41255 | 34199 | 0      | -32575 | -45081 | -41591 | 10687  | 89155  |
| Delta | 3956   | 1518  | 1491  | 1213  | 538   | 115    | 528    | 1322   | 1486   | 1396   | 1261   |
| Gamma | -40    | 66    | -301  | -173  | -174  | 13     | 176    | 361    | 105    | 56     | 30     |
| Theta | -157   | -422  | -465  | -341  | -127  | -3     | 116    | 319    | 533    | 391    | 22     |
| Vega  | -688   | -183  | -237  | -806  | -1445 | 194    | 1790   | 1271   | 485    | 674    | 1910   |

Supply-Products Skew

| Price | 90.00  | 92.00  | 94.00 | 96.00 | 98.00 | 100.00 | 102.00 | 104.00 | 106.00 | 108.00 | 110.00 |
|-------|--------|--------|-------|-------|-------|--------|--------|--------|--------|--------|--------|
| P&L   | -46741 | -12914 | 14305 | 29162 | 10847 | 0      | 3352   | 15978  | 18963  | 59041  | 90630  |
| Delta | 1700   | 1704   | 1002  | 135   | -221  | -16    | 430    | 816    | 1079   | 1311   | 1385   |
| Gamma | 0      | 5      | -385  | -138  | -98   | 109    | 158    | 141    | 107    | 81     | 59     |
| Theta | 0      | -2     | 175   | 125   | 262   | 131    | 32     | 14     | 13     | 202    | 104    |
| Vega  | 1      | 86     | -5197 | -6122 | -3690 | 103    | 2045   | 2313   | 2164   | 1431   | 1214   |

Demand-Products Skew

| Price | 90.00  | 92.00  | 94.00  | 96.00  | 98.00 | 100.00 | 102.00 | 104.00 | 106.00 | 108.00 | 110.00 |
|-------|--------|--------|--------|--------|-------|--------|--------|--------|--------|--------|--------|
| P&L   | -80095 | -53172 | -32633 | -10942 | 10359 | 0      | -19108 | -31833 | -28995 | -2425  | 31501  |
| Delta | 1968   | 1411   | 1293   | 1045   | 685   | 32     | -256   | 117    | 1010   | 1701   | 1700   |
| Gamma | -52    | -70    | -95    | -131   | -189  | -110   | 103    | 348    | 367    | -1     | 0      |
| Theta | -395   | -335   | -241   | -118   | -224  | -217   | -313   | -362   | -189   | 1      | 0      |
| Vega  | 59     | -324   | -807   | -1181  | -1165 | 313    | 4905   | 7918   | 5941   | -26    | 0      |

**CoachPhil** **opinion on naked premium selling approach?**  
« Reply #14 on: March 21, 2006, 09:06:14 PM »

Thanks Charles... I will dive into all that. My idea of selling futures against the verticals is really a "Break Glass in Case of Emergency" play where a severe move is occurring and you need to hedge immediately for the time being against that move. There is some timing of course but once the adverse move cools, you can close the futures position for a profit and then reevaluate the vertical as to whether it is better to close and use the hedge profits to result in a much much smaller net loss, or if your analysis demonstrates that the worst is over, you can simply bank the profits as a potential hedge from losses you may have to take if the market proves you wrong and you simply need to get out.



Ri\$k Doctor

**opinion on naked premium selling approach?**

« Reply #15 on: March 21, 2006, 09:10:35 PM »

That is totally cool and an appropriate way to approach it. I love the "Break Glass in Case of Emergency" analogy. Is that a CoachPhil original?

CoachPhil

**opinion on naked premium selling approach?**

« Reply #16 on: March 21, 2006, 09:29:35 PM »

Yes! LOL

It is the only way to get the point across that futures are shorted or bought on a market moving against you only in those major panics because playing with them other times can really @\$% up your account lol.

The glass analogy seems to convey the point the best

Break the Glass to Save Your @\$\$\$. I have not had to do it yet thankfully and hope I never do

alassio

**opinion on naked premium selling approach?**

« Reply #17 on: March 29, 2006, 02:05:02 AM »

Since the straddle provides weak protection because it is vulnerable to IV implosion after a move, I wonder whether a short ATM calendar could be an alternative. The short calendar should profit from a move and from IV implosion, which is better than the plain straddle. What do you think about this hedge?

Ri\$k Doctor

**opinion on naked premium selling approach?**

« Reply #18 on: March 29, 2006, 08:36:02 AM »

Couple of issues with that: 1st is that it will be treated as naked by the NASD so you will have to have enough for the exorbitant margin requirement. 2nd is if you could say yes to the following, it can be alright for you: "Would you consider selling a back month straddle in combination with buying a front month straddle to remedy the situation?" The reason I am asking is because 1 short straddle swap is synthetically equivalent to 2 short calendars (via the Jelly Roller).

alassio

**opinion on naked premium selling approach?**

« Reply #19 on: March 30, 2006, 01:11:07 AM »

Thanks for pointing me to the synthetic alternative of a short straddle swap, I didn't notice before. At Eurex, margin is risk based and therefore not treated as a naked position. Since the purpose would be some protective hedge, it would be closed at latest at expiration of the front month. However, since the gains are limited, the protection is also limited.

Another alternative is a backspread, maybe even calendarized, since when the market returns and the hedge is not needed any more, the backspread may be closed for a small profit. However, I have to check its reaction to IV implosion.

Ri\$k Doctor

**opinion on naked premium selling approach?**

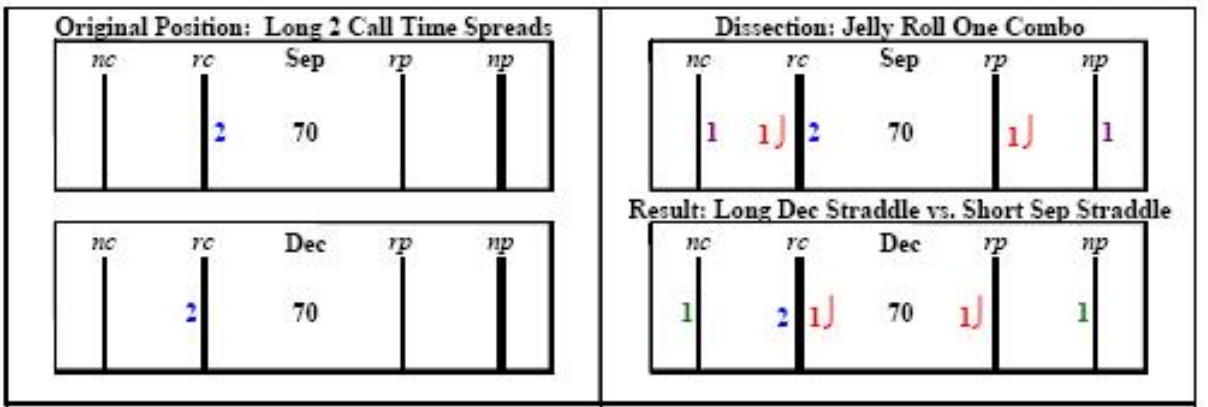
« Reply #20 on: March 30, 2006, 08:42:26 AM »

Implosion = Bad

There are other practical uses and some fascinating discoveries that this tool could help to uncover. For example, a jelly roller proves that two long call time spreads are synthetically the same as a straddle long in December against a short straddle in September, as shown in Exhibit 7–7.

### EXHIBIT 7 – 7

Dissecting 2 Long Call Time Spreads into a Long DEC Straddle vs. Short SEP Straddle



CoachPhil

Harvesting Baby Butterflies

« on: February 15, 2006, 02:00:40 PM »

Charles and others:

Wanted to let you peek over my shoulder on my experiment to open FLYs on the SPX and then sell off imbedded FLYs when appropriate to reduce the net debit and possibly get to a net credit under the right cicrumbstances or close the remainig FLY for a profit.

On the down day in the SPX last week I opened a MAR SPX 1200/1230/1260 Put FLY. When we moved higher, I also opened a MAR SPX 1265/1285/1305 Call Fly to capture any upside movement.

The spreadsheet below shows both FLY positions, the embedded FLYs inside and the net debits for both. We are still a little out from expiration so no looking to sell any imbeddded FLYs this week or even next. But after that I may start picking them off if the premium is right and it fits my analysis. I will update the positions as I go here. The other potential is that if the market looks to be settling in the range of one of the FLYs I may just hold it towards expiration.

We will see how I can manage the positions. I did one of each so the actual cost is quite small.

aa35360

Harvesting Baby Butterflies

« Reply #1 on: February 25, 2006, 06:34:17 PM »

Phil,

Interesting position. I understand the plan to sell baby flys if the underlying is within one of the larger flys in the next couple weeks. But what would you do with the fly that is OTM?

Hope the underlying falls into it, or just sell it for a loss and assume that your profitable fly makes up for the other's loss?

Either way, I look forward to seeing how you'll trade it.

ST

CoachPhil

Harvesting Baby Butterflies

« Reply #2 on: February 27, 2006, 10:54:48 AM »

**Quote** (aa35360 @ Feb. 25 2006,22:34)

Phil,

Interesting position. I understand the plan to sell baby flys if the underlying is within one of the larger flys in the next couple weeks. But what would you do with the fly that is OTM? Hope the underlying falls into it, or just sell it for a loss and assume that your profitable fly makes up for the other's loss?

Either way, I look forward to seeing how you'll trade it.

ST

Basically the total cost of the trade is the combined cost of both FLYs. My goal is to focus on the FLY which covers the current range of the market and sell of the imbedded FLYs there to cover the whole cost of the two positions and hopefully a profit. So the OTM FLY will be allowed to expire unless there is some value left after trading the ATM FLY.

Tlme decay is starting to kick in so the premiums might look better for selling the imbedded FLYs. Will keep you posted if I do anything.

Phil

Ri\$k Doctor

Harvesting Baby Butterflies

« Reply #3 on: March 03, 2006, 09:37:36 AM »

Crunch out the values of all the butterflies that you have in inventory. You may want to keep the cheapos and the ones that you feel may blossom according to your support and resistance points. You may want to take some money off the table if there are ones that are playing for ranges that you do not think likely for expiration or ones that are too expensive (not desirable) to hold.

CoachPhil

Harvesting Baby Butterflies

« Reply #4 on: March 03, 2006, 09:59:33 AM »

I actually started thinking about what actions to take given the range of the index and I like your suggestion. I was pulling up the chain as I was reading your post so a ncie coincidence lol.

One thing I might conclude is that the wide SPX b/a spreads make it harder to harvest the babies and I either should look at other index choices or a good wide ranging stock (GOOG comes to mind 😊)

Phil

Ri\$k Doctor

Harvesting Baby Butterflies

« Reply #5 on: March 05, 2006, 04:49:23 PM »

GOOG is a fun one to do this with.

|    | C            | D      | E    | F   | G   | H    | I | J             | K     | L     | M    | P          | R    | T |
|----|--------------|--------|------|-----|-----|------|---|---------------|-------|-------|------|------------|------|---|
| 11 |              |        |      |     |     |      |   | Net Contracts |       |       |      |            |      |   |
| 12 |              | PivotK | 1290 |     |     |      |   |               |       |       |      | PivotK     | 1290 |   |
| 13 | Month        |        |      |     |     |      |   | Butterfly     |       |       |      |            |      |   |
| 14 | Raw Position |        |      |     |     |      |   | Dissector     |       |       |      | Work Sheet |      |   |
| 15 | nC           | rC     | K    | rP  | nP  | K    |   | Bfly1         | Bfly2 | Bfly3 | K    | C          | K    | P |
| 16 |              |        | 1185 |     |     | 1185 |   |               |       |       | 1185 |            | 1185 |   |
| 17 |              |        | 1190 |     |     | 1190 |   |               |       |       | 1190 |            | 1190 |   |
| 18 |              |        | 1195 |     |     | 1195 |   |               |       |       | 1195 |            | 1195 |   |
| 19 |              |        | 1200 | 1   | 1   | 1200 |   |               |       |       | 1200 |            | 1200 |   |
| 20 |              |        | 1205 |     |     | 1205 | 1 |               | 1     |       | 1205 |            | 1205 |   |
| 21 |              |        | 1210 |     |     | 1210 | 2 |               | 2     |       | 1210 |            | 1210 |   |
| 22 |              |        | 1215 |     |     | 1215 | 3 |               | 3     |       | 1215 |            | 1215 |   |
| 23 |              |        | 1220 |     |     | 1220 | 4 |               | 4     |       | 1220 |            | 1220 |   |
| 24 |              |        | 1225 |     |     | 1225 | 5 |               | 5     |       | 1225 |            | 1225 |   |
| 25 |              |        | 1230 | (2) | (2) | 1230 | 6 |               | 6     |       | 1230 |            | 1230 |   |
| 26 |              |        | 1235 |     |     | 1235 | 5 |               | 5     |       | 1235 |            | 1235 |   |
| 27 |              |        | 1240 |     |     | 1240 | 4 |               | 4     |       | 1240 |            | 1240 |   |
| 28 |              |        | 1245 |     |     | 1245 | 3 |               | 3     |       | 1245 |            | 1245 |   |
| 29 |              |        | 1250 |     |     | 1250 | 2 |               | 2     |       | 1250 |            | 1250 |   |
| 30 |              |        | 1255 |     |     | 1255 | 1 |               | 1     |       | 1255 |            | 1255 |   |
| 31 |              |        | 1260 | 1   | 1   | 1260 |   |               |       |       | 1260 |            | 1260 |   |
| 32 |              | 1      | 1265 |     | 1   | 1265 |   |               |       |       | 1265 |            | 1265 |   |
| 33 |              |        | 1270 |     |     | 1270 | 1 | 1             |       |       | 1270 |            | 1270 |   |
| 34 |              |        | 1275 |     |     | 1275 | 2 | 2             |       |       | 1275 |            | 1275 |   |
| 35 |              |        | 1280 |     |     | 1280 | 3 | 3             |       |       | 1280 |            | 1280 |   |
| 36 |              | (2)    | 1285 |     | (2) | 1285 | 4 | 4             |       |       | 1285 |            | 1285 |   |
| 37 | (1)          |        | 1290 |     | 1   | 1290 | 3 | 3             |       |       | 1290 |            | 1290 |   |
| 38 |              |        | 1295 |     |     | 1295 | 2 | 2             |       |       | 1295 |            | 1295 |   |
| 39 |              |        | 1300 |     |     | 1300 | 1 | 1             |       |       | 1300 |            | 1300 |   |
| 40 | 1            | 1      | 1305 |     |     | 1305 |   |               |       |       | 1305 |            | 1305 |   |
| 41 |              |        | 1310 |     |     | 1310 |   |               |       |       | 1310 |            | 1310 |   |

CoachPhil

Harvesting Baby Butterflies

« Reply #6 on: March 06, 2006, 09:23:43 AM »

Thanks Charles! I think SPX is not the way to really test this out. All the imbedded FLYs have Bids of negative numbers due to wide SPX spreads. I am gonna try and sell some off this week to salvage something on the position and then look at a stock like GOOG.

Will also look into the dissector for quick analysis.

Regards,  
Phil

Ri\$k Doctor

Harvesting Baby Butterflies

« Reply #7 on: March 08, 2006, 09:10:29 AM »

You can ignore the natural market's below zero bid. Find the mid-point of the package and offer anything that you want to sell at .05 to .10 lower than the middle. You may have to motivate them more in illiquid situations as much as .25. The market makers will want that edge.

CoachPhil

Harvesting Baby Butterflies

« Reply #8 on: March 08, 2006, 09:29:44 AM »

Yeah the problem was the negative bid was quite low so the midpoints I am seeing are at \$0.35 or \$0.40 so I would have to sell at \$0.30 or lower to get filled. I am going to try to see what I can unravel based on which strikes are attractive to sell.

I am going to wait for GOOG to settle after the recent jump in price and then slap on a FLY because I see GOOG staying in the \$300s for some time until next earnings. I think I will have more success testing this on GOOG than on the SPX.  
Appreciate the insights. Will post if I move any babies.... 😊

CoachPhil

Harvesting Baby Butterflies

« Reply #9 on: March 14, 2006, 12:25:42 PM »

Well I sold the 1265/1285/1305 Call FLY for \$8.00 Credit. Thus my loss on the entire position is only \$2.25. The wide b/a spreads on the SPX make this difficult to do so I am going to try it on GOOG. Trading near \$350 I am going to look into the APR 300/350/400 FLY and see how many little orphans I can sell off.

So a cheap learning experience on the SPX FLYs (\$225). We will see about GOOG.

Ri\$k Doctor

Harvesting Baby Butterflies

« Reply #10 on: March 20, 2006, 10:14:57 AM »

Just in time. SPX settled just out of range. Way to salvage the trade.

ashoo

Harvesting Baby Butterflies

« Reply #11 on: March 21, 2006, 05:18:43 PM »

Hello CoachPhil,  
GOOGs IV is expected to go up from where it is now since next month is the earnings month. Usually a fly is entered when IV is high. If IV creeps higher after you enter your fly wouldn't the harvested baby butterflies be worth less when you sell them? I am just trying to learn and understand the mechanics of the trade or am I missing something?

Thanks,  
Sri

Ri\$k Doctor

Harvesting Baby Butterflies

« Reply #12 on: March 21, 2006, 06:05:18 PM »

They would be worth less unless time had gone by and the baby's body was ATM.

CoachPhil

Harvesting Baby Butterflies

« Reply #13 on: March 21, 2006, 09:02:43 PM »

**Quote** (ashoo @ Mar. 21 2006,21:18)  
Hello CoachPhil,  
GOOGs IV is expected to go up from where it is now since next month is the earnings month. Usually a fly is entered when IV is high. If IV creeps higher after you enter your fly wouldn't the harvested baby butterflies be worth less when you sell them? I am just trying to learn and understand the mechanics of the trade or am I missing something?  
Thanks,  
Sri

Increasing IV would keep the baby flies prices down but if I can pick off enough initially to cover the cost or get to a net credit, I can then let theta kick in on the remaining FLYs. The risk is GOOG settling in on a strike of a sold baby but the premium taken in will at least reduce my risk. If GOOG keeps bouncing around the \$300s then over time I can at worst reduce my risk significantly.

Remember in the SPX FLY I took off the call FLY and reduce my risk from \$10.25 to \$2.25. I may take a few small losses but perhaps I can consistently take in credits doing this month to month.

Of course this is all assumptions and I will have to test it as I will with GOOG. Once things settle down this week I will place a GOOG \$300/\$350/\$400 FLY or something close to it and lay it out here.

I may have to wait longer to take out the babies if IV increases but there is no rush to start selling the babies, only do so when the premium and strikes are worth it (i.e. you would independently sell those baby FLYs on their own).



decadencenow



**Market Makers Approach to selling a position.**

« **on:** March 07, 2006, 06:33:23 AM »

Hi Charles,

I understand synthetic positions from you book, but if I wanted to purchase straight puts on a stock like the way GM has recently (2005) been behaving, how would you "cover" your risk and position as being potentially "naked" a Put. I know you can then spread yourself off, but then you are then naked between the legs and at risk for the position between the spread, if you as a MM then did credit spread, (with me taking only one side) or will you do the conversion / reversal? Looking at the past we know that recently GM did drop and the puts would have made some money. The same could apply to a stock like google where calls will make money. How would you also have made money from my transaction?

I really do appreciate the time taken to answer my questions. And thanks.

Ri\$k Doctor

**Market Makers Approach to selling a position.**

« **Reply #1 on:** March 08, 2006, 04:33:35 PM »

Long naked options are much different than short naked options. Unlike, naked long options which have built in protection (hedged by definition in that they only can lose what you pay) short options are the ones that need protection.

So, wehn buying naked options, plan beforehand to be able to lose the whole amount comfortably and therefore it needs no hedge. Perhaps you need to decrease your size for certain trades to meet that objective.

MMs ill most likely NOT lock in the Box or a Conversion/Reversal against your individual trade. The liquidity issues for him or her do not allow that. Instead, they hedge the delta immediately for sure. Depending on the size of the trade, if it is small, they will let the other trades that they make absorb the other Greek exposures. If it is a huge trtrade, they will either take a calculated bet against you or scramble for whatever Greek offsetting options are available at favorable prices hoping to reel in the rest over time and manage the risk with positive and/or negative gamma scalping.

ksaunders

Price discrepancies

« on: February 20, 2006, 12:01:59 AM »

I am new to position dissection but i do find it facinating. I was going through the various position dissections in Chapter 1 of CWS and plugging them into options analysis software.

Even though the profit and loss diagrams were the same for each position - (indicating equivalency) there were slight discrepancies in the prices of each dissected position. Is there a way to capitalise on these differences?

thanks in advance  
kevin

ohlala

Price discrepancies

« Reply #1 on: February 21, 2006, 08:46:56 PM »

Hi Ksaunders,  
As a retail trader, I don't think that there would be a realistic way to capitalise on the arbitrage oppurtunities, that arise due to price discrepancies.

These situations seem to arise due to: A real price discrepancy, delay, error in quotes, misinterpretation of the real risk. They are catchy as they may give the idea of easy money out there, and who wouldnt want that, I would definitely want some.!! You must realise that "if " there is a discrepancy look to see if there is really an oppurtunity. There may be a dividend upcoming and if you don't figure that into the calculation you could loose money where that you thought would be a sure profit.

Also the "edge" may be .05 and to capitalise on this, you would have to put on a large number of contracts which is generally not the case for a retail trader. Also, while going through the examples in the book, note that the prices are theoretical, and don't have bid / ask spreads or have interest/dividends (chapter 8 material) figured into the calculation.

Also, take a look at the question I asked Charles a couple of weeks ago, "price of call flys vs. put flys" although it's on butterflies, it gives a rough idea what is all involved. Hope this helps. I'm sure Charles will add some further info.  
Sathya

ksaunders

Price discrepancies

« Reply #2 on: February 21, 2006, 09:19:54 PM »

HI Sathya  
Thanks for your comments. Very good information.

I should have said I tried the positions in the book with a underlying of the same price at the present time so the discrepancies were with real prices.

I found the discrepancies were in the hundreds of dollars with contract sizes between 10 and 20 so that was interesting too. Really I'm interested in the theory of how you might take two equivalent positions - one with say a max risk of \$45 000 and the other synthetically equivalent position but with a max risk of \$45500 and extract the \$500 difference. Is this even possible in theory?

Kevin

ohlala

Price discrepancies

« Reply #3 on: February 22, 2006, 02:04:19 AM »

Hi Kevin,

Don't rely on the particular examples in the book to find price discrepancies, I'm not saying there is anything wrong with the numbers, but look at a real stock, options prices to see if you'd come across the same scenario. If you did... based on the numbers provided and a rough calculation it comes out to be ~.25 discrepancy/option. If you do come across the scenario, ask yourself could the prices be erroneous, (one has updated quicker than the other, or with respect to the stock)? If you think not, are you getting "the edge" using the worst case price, buying on the bid and selling on the ask, if you're taking a value in between, do you really think you would get filled at that price?

Generally its better to take a position; say a call, by buying a call rather than a synthetic call(stock + put), less slippage and less commissions.

Now if your just getting started, trading 10-20 contracts may not be totally advisable, start with what your comfortable and increase as you get more confident.

"New option traders are often instructed to go into the market and concentrate on executing conversions and reversals because these strategies are riskless. BEWARE: there are no riskless strategies. There are only strategies with greater or lesser risk. The risks of doing conversions or reversals may not be immediately apparent, but they exist nonetheless". Quote from "Options Volatility and Pricing" by Sheldon Natenberg.

In the case you specified, if you locked in the difference between the synthetic market and the real market you'd have locked in that profit, but if your just looking at it as a trade by itself and looking whether the real or synthetic market is cheaper and putting on the cheaper one, the risk is almost identical and you'd be better off doing a single position (say buying a call if that's what your initially planning instead of buying a synthetic call).

If you do think you've found an Arbitrage situation by comparing the synthetic market to the real market,

if the synthetic market is more expensive, sell it (+p -c) and buy the real market (the stock) creating a conversion, if the real market is expensive, sell the stock and buy the synthetic market (+c -p) creating a reversal. Whatever edge was there would have been locked in and you will reap that profit at expiration.

Now, doing this involves further risk; execution risk. Would you be able to get filled on these three legs at the "edge price". Pin Risk; having gotten filled at these prices, if the stock happens to be at the strike price at expiration you don't know whether you're going to be assigned on the short leg and whether you should exercise. If that's the case you'd generally reverse the position to get out, but in doing that you'd be giving up a bit of profits to slippage, and if the initial edge was only .10-.15 it's a huge margin to give up.

Further risks include interest rate risk and dividend risk.

Also being a retail trader, commisions add up and in order to get the real benefit from Arbitrage strategies you'd have to do them in large quantities, you'd have to calculate the cost of commissions into the equation as well.

Just looking at the prices won't necessarily give you the true picture, unless you plug in the carry costs (banking). Once you've plugged in the all of those values, does the edge still exist?

These situations are very few and far between and last no more than a few seconds as the professionals all swoop on them, once there's a huge demand the prices go back to normal. Think about it, a retail trader sitting behind a computer calculating it by hand (or calculator, computer, etc.) what edge does he have in competing against professional Arbitraguers who have sophisticated software that scans for these oppurtunities in real time. Once the whole picture is considered (that's what it seemed to me) it's better to play options for direction or non-directional strategies rather than for arbitrage.

Hope this helps,

Sathya

ksaunders

Price discrepancies

« Reply #4 on: February 22, 2006, 05:47:39 AM »

Thanks for your very thorough treatment on this subject Sathya. Much appreciated.

Perhaps I should have been more precise in what I was asking... I understand the principles of the C/R arbitrage which I agree is not worth it to the retail customer.

The positions i was experimenting with were the more complex series of put call combinations on page 50 (exhibit 2-5) that required the box tool for dissection.

My experiment was to find a stock of similar price and try to duplicate Gil Bates's original position and the 5 dissections to see how all the 5 different synthetic positions remain equivalent - and to use real market prices.

I found that at the trade sizes in the book that the discrepancies were in the hundreds of dollars. I was interested in two things - is there a way to capitalize on this (ie buying the cheaper combination and selling the more expensive synthetic) and if so would the professional arbitrageur be even looking for these sorts of discrepancies when the main focus of the search is for the simpler to execute C/R and BOX trades?

Perhaps the question is "Do arbitrage opportunities exist in more complex positions and if so would they be also on the professional arbitrageurs radar?"

kevin

|              |  |
|--------------|--|
| ohlala       | <div data-bbox="344 46 851 106"><b>Price discrepancies</b><br/>« <b>Reply #5 on:</b> February 22, 2006, 09:15:58 PM »</div> <div data-bbox="344 147 2943 596"><p>Hi Kevin,</p><p>With either a single strike position or multiple strike position arbitrage situations "do/could" arise simply because of the fact of a few variables involved in the picture, and if one's slightly off, there could be an oppurtunity.</p><p>All the options prices are interconnected, you've seen the first set of relations for an individual strike, the same concept applies for multi strikes and multi expiration months. Instead of looking at the conversino/reversal you'd look at the "box" values to see whether there all "in line". If you go beyond two strikes you could have the combination of short/long box, or for multi expirations the jelly roll.</p><p>Take a look at the options matrix, Exhibit 6-9 (at least in the version I've got, if its not look for it in the Wing spreads chapter); you'll see how all the prices are interelated. Remember with the increase in number of strikes the number of variables that can affect the pricing increases.</p><p>Foe example, take two strikes, the calls and the puts at the different strikes could have different IV's and thereby cause a discrepancy. That's only one variable, if you're interested further read Chapter 8, Market Maker Insights. At times, I've found it a better remedy of putting me to sleep than counting sheep!!!! BTW Charles agrees that it is a great chapter for insomniacs.</p><p>To put it straight 'Yes there are arb oppurtunities out there'. Would the retail trader be able to capitalise on them? 'Not Very Likely'. Are they on the Professional Arbitraguers' Radar? 'Most certainly'.</p></div>  |
| ksaunders    | <div data-bbox="344 643 857 723"><b>Price discrepancies</b><br/>« <b>Reply #6 on:</b> February 22, 2006, 10:40:37 PM »</div> <div data-bbox="344 751 979 848"><p>thanks for your views on this Sathya. Most helpful</p><p>kevin</p></div>  |
| ohlala       | <div data-bbox="344 880 857 961"><b>Price discrepancies</b><br/>« <b>Reply #7 on:</b> February 23, 2006, 09:19:19 PM »</div> <div data-bbox="344 989 2306 1078"><p>Hi Kevin,</p><p>To peek further into this topic read the chapter "Option Arbitrage" from Option Volatility and Pricing by Sheldon Natenberg. It covers this topic in depth.</p><p>Sathya</p></div>  |
| Ri\$k Doctor | <div data-bbox="344 1102 836 1183"><b>Price discrepancies</b><br/>« <b>Reply #8 on:</b> March 05, 2006, 05:32:49 PM »</div> <div data-bbox="344 1211 2961 1917"><p>Hi Kevin, and thank you Sathya.</p><p>The prices in most of the book's examples use a generic contract with no dividends and assume a zero interest rate. Certainly, those are important variables and their impottance is expressed, as Sathya mentioned in Chapter 8.</p><p>My books are trying to show that futures options and stock options have identical underlying theories and foundations. In reality, they differ slightly because of the models' treatment of dividends, interest and the probability of early exercise/assignment.</p><p>The emphasis is on the Hidden Reality that Position Dissection brings out and how it can help in the decision making process.</p><p>You will not find many opportunities to compete for discrepancies from the actual theoretical values without auto-trading arbitrage software and market maker margin status. And you must be aware of stuff like why a 5.00 box can be worth more than 5.00 due to early exercise opportunities as opposed to the present value of 5.00 as the theory would suggest.</p><p>The 1st chapter covers 1 strike, and the 2nd brings in the 2nd strike. Later chapters bring in more strikes and more months but the major arbitrage opportunities for locked in profit happen in the microcosm of a single strike.</p><p>To answer your original question, it would be best to submit actual prices that you think are favorable and I will then examine them and present to you where and why the prices belong where they do.</p><p>Black-Scholes Thinking: Simply, right at the money in futures options, the call and put are valued the same. However, in stocks the call is greater than the put by the carry cost of the stock. Subtract from the carry cost any dividend if there is one during the expiration cycle. The dividend greater than the carry cost, therefore would make the put worth more than the call when the underlying is right at the strike.</p><p>Other equity models deviate from the above by calculating a probability of early exercise.</p></div> |



ohlala

price of call flies vs put flies

« on: February 09, 2006, 06:54:54 PM »

Hi Charles,

I was looking at OIH and noticed that there was a difference in price between the ATM call flies and the put flies, the same price difference showed up when I looked few strikes up from ATM.

OIH closed at 141.45 on Feb 8.

| call flies | strike | put flies |
|------------|--------|-----------|
| 2.1        | [140]  | 2.25      |
| 2.25       | [145]  | 2.35      |
| 2.0        | [150]  | 2.2       |

The values here are the mid values between b/a spread.

Is it the fact that the 145,150 put flies are ITM hence wider b/a spread hence bit more expensive than corresponding call fly's. Does the fact that the ETF pays a dividend almost every week have an influence on the prices?(Better to be in puts than call flies?)

Are options on ETF's(all) settled Europea style or American stlye?

Are they cash settled or you have to buy the shares in the ETF on settletment?

If the difference is primarily due to being ITM options, is it realistic to get filled using the mid value of the cheaper options?(In this case filled on the put fly using the call fly's mid value).

The reason why I'm looking at this is because the call flies are cheaper than the put flies but the ETF pays a dividend almost weekly which could come into play closer to exp if the call fly is ITM.

Appreciate your comments.

Sathya

Ri\$k Doctor

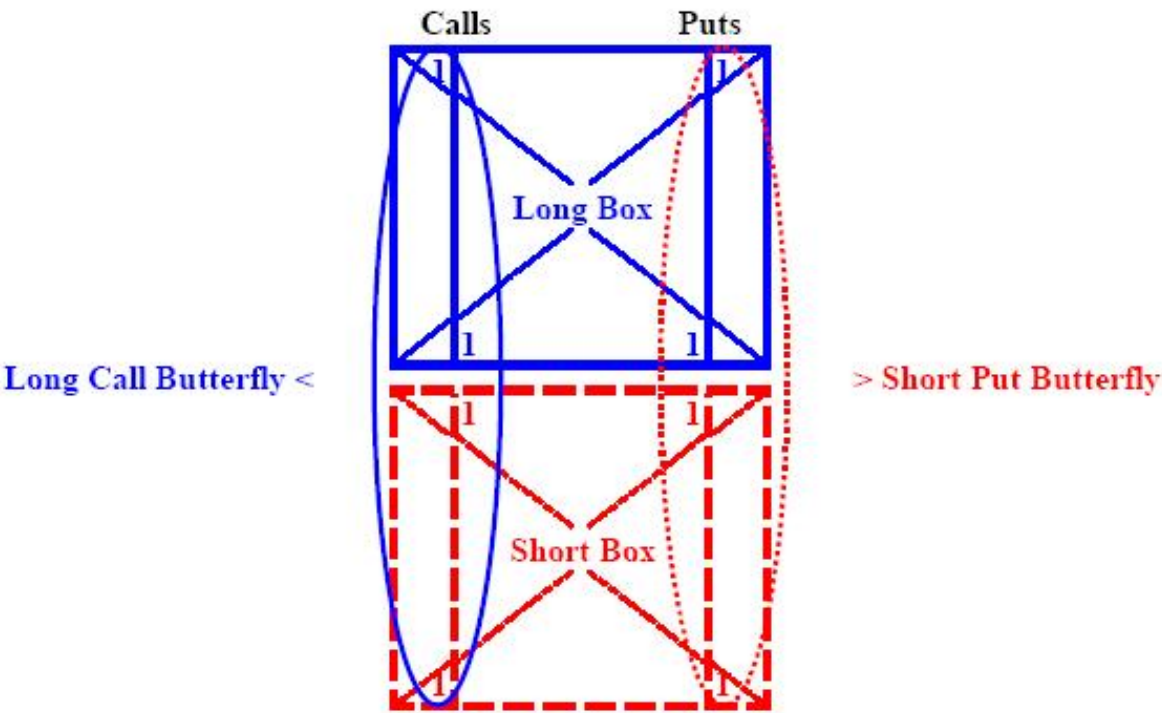
price of call flies vs put flies

« Reply #1 on: February 10, 2006, 02:30:45 PM »

I think you just cought a snapshot of inefficiency. ETFs usualy involve delivery of the underlying. My infor shows a quarterly Dividend on 02/28/06 so I don't think that is a factor. Call butterflies vary only when there is an exercise opportunity. A long and short butterfly at the same strike is a double box.

EXHIBIT 6 – 5

100 Call Butterfly Versus 100 Put Butterfly is the 95/100 Box Versus the 100/105 Box



CoachPhil

Iron Butterfly Trade walk through

« on: February 06, 2006, 08:58:17 AM »

Charles and all:

Wanted to walk through a recent trade I did and highlight some adjustments as sort of an educational process for me and those reading as well as whatever insight Charles can provide.

Stock: ISRG

On 2/2/06 ISRG was trading at extreme vols (~ 104%) because earnings were to be released in the aftermarket. Next month vols were around 70% or so. To trade the vol and leg into a favorable position after the earnings and IV contraction I did the following with ISRG at \$127:

Sold 3 FEB \$130 Straddles @ \$21.70.

SIDEBAR: Since naked straddles carry risk and margin I only did 3 to keep it small since a large move producing a loss could be locked down with an adjustment in the AH (shorting/buying stock) or the next day (rolling into FLY, etc..) and thus I would not take a large hit at all.

Earnings came out and stock was all over the place but opened the next day around \$115 or so and vols dropped to 60/70%. So the next day after the vol drop (2/3) I did the following:

Bought 3 \$115/\$145 Strangles @ \$4.30 (~63% vol)

My resultant position was an Iron Butterfly (\$115/\$130/\$145) for a net credit of \$17.40. Since the strikes were \$15.00 apart, the legged into FLY has a guaranteed profit of \$2.40 per spread and a max profit of \$17.40 at \$130 at expiration.

So I can leave the position alone to expiration and let it do what it wants knowing I have a guaranteed profit.

But dissecting the positon, I have a 115/130/145 wingspread which contains 27 imbedded butterflies:

|     |     |     |     |     |     |     |              |
|-----|-----|-----|-----|-----|-----|-----|--------------|
| 115 | 120 | 125 | 130 | 135 | 140 | 145 |              |
|     | 3   | 6   | 9   | 6   | 3   |     | (Baby Flies) |

I could add further income to this position by selling off some of the babies (how cruel) depending on where the stock is given that we are 2 weeks to expiration. Right now it is not a consideration with the stock at \$113.50 and falling so it is outside the range.

But assume the stock was hovering near \$120 and the 115/120/125 Call Fly could be sold for \$1.00. I could sell that one baby FLY and bring in \$1.00 improving my overall credit and locked in profit. If the stock floats back to \$120 or so I can hold to see if it will stay near my max profit zone at \$130, take the whole position off for a nice profit, or sell another baby fly takaing another piece.

With the stock dropping now towards \$113 I will just let it go to expiration to see if it moves back into the profit zone.

Ri\$k Doctor

Administrator  
Hero Member



Iron Butterfly Trade walk through

« Reply #1 on: February 07, 2006, 09:34:20 AM »

You may harvest baby butterflies at any time but your opinion is a factor but more importantly, what was the iron going for when you bought the strangle. The reason I ask is that it is important to be consistent with what you would do if you had no position at that point.

We get distracted with such things as, "I have legged this spread most excellently generating a greater credit than I will have to pay back". In other words, "I cannot lose". But you can... from that point forward. Complacency has left some money on the table here, definitely, if you would not have initiated the iron at the moment of adjustment.

ISRG has now plummeted to 101. Have you considered ratioing your verticals? That is selling off perhaps 2 of the bull spreads for 1.00 each, keeping 1\*115/130 to protect the 3 bear spreads (130/145) embedded in your position.

Iron Butterfly Trade walk through

« Reply #2 on: February 07, 2006, 10:20:05 AM »

Quote (Ri\$k Doctor @ Feb. 07 2006,13:34)

You may harvest baby butterflies at any time but your opinion is a factor but more importantly, what was the iron going for when you bought the strangle. The reason I ask is that it is important to be consistent with what you would do if you had no position at that point.

We get distracted with such things as, "I have legged this spread most excellently generating a greater credit than I will have to pay back". In other words, "I cannot lose". But you can... from that point forward. Complacency has left some money on the table here, definitely, if you would not have initiated the iron at the moment of adjustment.

ISRG has now plummeted to 101. Have you considered ratioing your verticals? That is selling off perhaps 2 of the bull spreads for 1.00 each, keeping 1\*115/130 to protect the 3 bear spreads (130/145) embedded in your position.

When I first considered the adjustment the straddle did have a higher profit than the locked in credit of rolling into the FLY but I had some expectation that the stock would pullback into the \$120s and it actually moved back to \$121 before this plummet down to \$101. So that was one of the considerations behind the adjustment.

As for now, I am not sure I follow on selling the 2 of the bull spreads (\$115/\$130). Since they are puts they were sold to open (legged into) so to close 2 of them I would have to buy them back and they are almost at the maximum value. At this point being so far OTM I am content to let the Iron Fly expire for a net credit since I cannot see an adjustment to make without taking on more risk.

Iron Butterfly Trade walk through

« Reply #3 on: February 07, 2006, 11:55:07 AM »

Perhaps the following dissection will help illustrate what I am trying to suggest:

|     |       |              |     |     |    |     |    |               |       |       |     |        |            |   |
|-----|-------|--------------|-----|-----|----|-----|----|---------------|-------|-------|-----|--------|------------|---|
|     | C     | D            | E   | F   | G  | H   | I  | J             | K     | L     | M   | P      | R          | T |
| 11  |       |              |     |     |    |     |    | Net Contracts |       |       |     |        |            |   |
| 12  |       | PivotK       | 100 |     |    |     |    |               |       |       |     | PivotK |            |   |
| 13  | Month |              |     |     |    |     |    |               |       |       |     |        |            |   |
| 14  |       | Raw Position |     |     |    |     |    | Butterfly     |       |       |     |        | Work Sheet |   |
| 15  | nC    | rC           | K   | rP  | nP | K   |    | Bfly1         | Bfly2 | Bfly3 | K   | C      | K          | P |
| 35  |       |              | 110 |     |    | 110 |    |               |       |       | 110 |        | 110        |   |
| 36  | 3     |              | 115 | 3   |    | 115 |    |               |       |       | 115 |        | 115        |   |
| 37  |       |              | 120 |     |    | 120 | 3  | 3             |       |       | 120 |        | 120        |   |
| 38  |       |              | 125 |     |    | 125 | 6  | 6             |       |       | 125 |        | 125        |   |
| 39  | (6)   | (3)          | 130 | (3) |    | 130 | 9  | 9             |       |       | 130 |        | 130        |   |
| 40  |       |              | 135 |     |    | 135 | 6  | 6             |       |       | 135 |        | 135        |   |
| 41  |       |              | 140 |     |    | 140 | 3  | 3             |       |       | 140 |        | 140        |   |
| 42  | 3     | 3            | 145 |     |    | 145 |    |               |       |       | 145 |        | 145        |   |
| 58  |       |              | Net |     |    | Net | 27 | 27            |       |       | Net |        | Net        |   |
| 59  |       |              |     |     |    |     |    |               |       |       |     |        |            |   |
| 60  |       | PivotK       | 100 |     |    |     |    |               |       |       |     | PivotK | 100        |   |
| 61  | Month |              |     |     |    |     |    |               |       |       |     |        |            |   |
| 62  |       | Raw Position |     |     |    |     |    | Butterfly     |       |       |     |        | Work Sheet |   |
| 63  | nC    | rC           | K   | rP  | nP | K   |    | Bfly1         | Bfly2 | Bfly3 | K   | C      | K          | P |
| 83  |       |              | 110 |     |    | 110 |    |               |       |       | 110 |        | 110        |   |
| 84  | 1     | (2)          | 115 | 3   |    | 115 |    |               |       |       | 115 |        | 115        |   |
| 85  |       |              | 120 |     |    | 120 | 1  | 1             |       |       | 120 |        | 120        |   |
| 86  |       |              | 125 |     |    | 125 | 2  | 2             |       |       | 125 |        | 125        |   |
| 87  | (4)   | (1)          | 130 | (3) |    | 130 | 3  | 3             |       |       | 130 |        | 130        |   |
| 88  |       |              | 135 |     |    | 135 |    |               |       |       | 135 | (3)    | 135        |   |
| 89  |       |              | 140 |     |    | 140 |    |               |       |       | 140 |        | 140        |   |
| 90  | 3     | 3            | 145 |     |    | 145 |    |               |       |       | 145 | 3      | 145        |   |
| 106 |       |              | Net |     |    | Net | 6  | 6             |       |       | Net |        | Net        |   |

The top half shows the 27 baby butterflies embedded in your 3 lot pregnant butterfly.  
The lower half shows the result of siphoning off 2 of the 3 closer synthetic long call 115/130 verticals.

Iron Butterfly Trade walk through

« Reply #4 on: February 07, 2006, 12:15:03 PM »

Charles:

Thanks that helps me follow it better. Stupid me I stated 9 pregnant butterflies but forgot to multiply by 3 (# of spreads).

One question. On the lower left-handed box, how does the short 2 calls at \$115 when matched with the long 3 puts result in a net call position of 1?I see 2 short call at \$115 and 3 long puts at \$115 which can be 200 synthetic short positions with a long \$115 put.  
Are you saying that the position now behaves exactly like an unbalanced strike call butterfly of +1\*\$115/-4\*\$130/+3\*145?

Iron Butterfly Trade walk through

« Reply #5 on: February 07, 2006, 12:25:38 PM »

The Dissector is removing 3 boxes to result in the nets (nC & nP):

|  |     |         |              |       |    |     |   |       |       |       |     |     |   |
|--|-----|---------|--------------|-------|----|-----|---|-------|-------|-------|-----|-----|---|
|  | C   | D       | E            | F     | G  | H   | I | J     | K     | L     | M   | P   |   |
|  |     |         |              |       |    |     |   |       |       |       |     |     |   |
|  |     |         | Raw Position |       |    |     |   |       |       |       |     |     | W |
|  | nC  | rC      | K            | rP    | nP | K   |   | Bfly1 | Bfly2 | Bfly3 | K   | C   |   |
|  |     |         | 110          |       |    | 110 |   |       |       |       | 110 |     |   |
|  | 1   | 3 (2)   | 115          | (3) 3 |    | 115 |   |       |       |       | 115 |     |   |
|  |     |         | 120          |       |    | 120 | 1 | 1     |       |       | 120 |     |   |
|  |     |         | 125          |       |    | 125 | 2 | 2     |       |       | 125 |     |   |
|  | (4) | (3) (1) | 130          | 3 (3) |    | 130 | 3 | 3     |       |       | 130 |     |   |
|  |     |         | 135          |       |    | 135 |   |       |       |       | 135 | (3) |   |
|  |     |         | 140          |       |    | 140 |   |       |       |       | 140 |     |   |
|  | 3   | 3       | 145          |       |    | 145 |   |       |       |       | 145 | 3   |   |
|  |     |         | Net          |       |    | Net | 6 | 6     |       |       | Net |     |   |



CoachPhil

**Introduce...**

« **on:** January 18, 2006, 01:05:44 PM »

Just signed up and wanted to say hi! Had the pleasure of meeting Charles this weekend and learning from him and found my way over here. My name is Phil and I mainly trade options on the indexes and look forward to exchanges of ideas.

Phil

ohlala

**Introduce...**

« **Reply #1 on:** January 18, 2006, 06:03:47 PM »

HI CoachPhil,  
Just out of curiosity are you the same person on the TOS trader lounge boards? or a different coachphil???

CoachPhil

**Introduce...**

« **Reply #2 on:** January 19, 2006, 03:26:23 PM »

Yup, that would be me

Phil

Ri\$k Doctor

**Introduce...**

« **Reply #3 on:** January 23, 2006, 12:06:11 PM »

**Welcome CoachPhil!** Please let all of us know about your radio show -- when we can hear it and where we can find it.

Also please feel free to post a link to where people can find your book and list some of its unique features.

You also have a big presence on the EliteTrader Boards so please post a link to where we can read the discussions you are involved with.

CoachPhil

**Introduce...**

« **Reply #4 on:** January 23, 2006, 04:06:02 PM »

Charles,

Thanks for the welcome and the suggestion.

**[My book, The Option Trader Handbook, can be found here.](#)**

It focuses on trade adjustments from the P/L point of view and is good way to learn how to adjust profitable and losing positions. I would think a good precursor to Charles' book which goes into greater detail from the market maker/risk paramter (Greeks) point of view.

I also used to have a weekly radio show live on the internetWednesday. Wish I had Charles on as a guest.

Right now I have been studying selling straddles into IV spikes and then converting to Iron Flys. Another poster at EliteTrader.com was discussing this and found it interesting way to play IV and theta and then roll into FLYs at little or no risk. Have one running on GOOG although the surge today will mean I might just have to close out.

Phil

P.S. Looking forward to the book 😊

Ri\$k Doctor

Introduce...

« Reply #5 on: January 23, 2006, 05:15:40 PM »

Thanks CoachPhil. Your show runs right into RD3 so I will be able to catch a lot of it each week.

ohlala

Introduce...

« Reply #6 on: February 02, 2006, 06:25:10 PM »

Hi CoachPhil, Charles and others.....

Coach, you wrote that you mainly trade options on Index's.... I've got a question, most of the cash settled index's dont have a bid/ask quote, so how do you know that you're getting the position for a fair price?

You can calculate the width of the spread the MM needs to get a theoretical edge by the bid/ask spread of the stock times the delta of the options spread. Now when I say theoretical I

mean theoretical and not practical as the MM can get the edge by just having a spread a penny or two wide or less, but options spreads don't trade in penny increments, unfortunately!!!

I combine this reference with comparing the spread of the individual options with a similar delta to the spread trade that I'm doing and put in an order at that price which is generally much narrower that the quoted bid/ask and I've been filled quite frequently at those prices.

How do you go about shaving the spread of the trade to get a realistic fill?

What's the main drawing card for you towards Index's, their high liquidity? other variables?

Not trying to pull any strings, just curious

I've not been too attracted to Index's as I would have to put a large number of contracts onto achieve a similar potential profit compared to stocks, and the commissions add up very quickly.

Look forward to your input,  
Sathya

CoachPhil

Introduce...

« Reply #7 on: February 02, 2006, 07:43:32 PM »

**Quote** (ohlala @ Feb. 02 2006,22:25)

Hi CoachPhil, Charles and others.....

Coach, you wrote that you mainly trade options on Index's.... I've got a question, most of the cash settled index's dont have a bid/ask quote, so how do you know that you're getting the position for a fair price?

You can calculate the width of the spread the MM needs to get a theoretical edge by the bid/ask spread of the stock times the delta of the options spread. Now when I say theoretical I mean theoretical and not practical as the MM can get the edge by just having a spread a penny or two wide or less, but options spreads don't trade in penny increments, unfortunately!!!

I combine this reference with comparing the spread of the individual options with a similar delta to the spread trade that I'm doing and put in an order at that price which is generally much narrower that the quoted bid/ask and I've been filled quite frequently at those prices.

How do you go about shaving the spread of the trade to get a realistic fill?

What's the main drawing card for you towards Index's, their high liquidity? other variables?

Not trying to pull any strings, just curious

I've not been too attracted to Index's as I would have to put a large number of contracts onto achieve a similar potential profit compared to stocks, and the commissions add up very quickly.

Look forward to your input,  
Sathya

Cash settled indexes certainly do have bid/ask quotes such as the SPX, XEO and OEX. The spreads are wide unfortunately on the SPX products but the "fair value" for my purposes is the floor mid-point and i try and shave off of it as little as I can. So if the b/a on a spread is \$1.00/\$2.00 I start at \$1.50 and shave about a dime or so and place a limit order and let it sit. This is more from experience because I am selling deep OTM spreads and the wider the spread, the more I have to shave off the mid-point to get filled.

The main drawing of indexes is that they are easier to follow and analyze because you are looking at the market as a whole (SPX) as opposed to the specific risks of any stock. I do not have to worry about specific stock earnings or sectors or scanning stocks to find my trades. I follow one index closely and trade off it month in and month out. Indexes also allow for more technical tools since they are widely followed. So I can ignore individual shocks such as GOOG or BA and look at the market as a whole. It makes life easy for me. I basically got tired of searching and scanning for more stocks.

Also with the S&P, I have SPX, XSP, SPY, ES, SP, and XEO/OEX (98% correlation) so many choices to trade the same underlying. I can achieve nice profits on the index. The underlying does not matter, the strategies matter. Commissions no longer are an issue given discount brokers so it is not a factor really.

So basically I get to focus all my attention on one main underlying which is less prone to wild price swings than individual stocks. Sure the SPX can dunk 20 points on an horrible day but on average it moves slowly day to day and is easy to monitor.

It is really about trading style and preference and the indexes, especially the S&P suit my style perfectly 😊  
Phil

ohlala

Introduce...

« Reply #8 on: February 02, 2006, 08:58:47 PM »

Hi Coach,  
Thanks for pointing it out, some of the Indexes have bid/ask prices. I made my comments based on the DJX, DFX, MNX which dont seem to show bid/ask prices. Also the I didn't see bid/ask prices for the other indexes like SPX, SPY as the setting on the display was set to high/low.  
Sathya

DonnaV

Introduce...

« Reply #9 on: February 02, 2006, 09:07:25 PM »

actually....wasn't it Lauren Bacall to Bogart?

CoachPhil

Introduce...

« Reply #10 on: February 03, 2006, 10:29:37 AM »

**Quote** (ohlala @ Feb. 03 2006,00:58)  
Hi Coach,  
Thanks for pointing it out, some of the Indexes have bid/ask prices. I made my comments based on the DJX, DFX, MNX which don't seem to show bid/ask prices. Also the I didn't see bid/ask prices for the other indexes like SPX, SPY as the setting on the display was set to high/low.  
Sathya

I think you are looking for the bid/ask prices on the indexes themselves where there is none. I trade the options on the indexes and those do have b/a prices.

Phil

Ri\$k Doctor

Introduce...

« Reply #11 on: February 03, 2006, 11:52:18 AM »

For the MNX, you can look at the QQQQs and multiply by 4 to get the effective width of the options. The MNX options are about 4 times larger but very a bit because one is an equity and the other is an index. Also they differ by a trading day for expiration.

Similar relationships can be found in DJX vs. DIA

SPX vs. SPY

In learning about how much to shave:  
I personally don't use that term because it implies that you ar shaving a little off the ask price. But it is also used to add to the bid price.

The natural bid/ask spread for spreads is to be totally ignored. Find the middle value and motivate a counter party by adding a little when buying or deducting a little when selling. How much will be based on experience and options involved.

Try first by adding .025 to .05 in the QQQQs -- you should get them every time in the front month.  
Try that in GOOG and you will be ignored. In GOOG you may have to add .25 or more depending on the delta of the position attempted.

The ATM in MNX are .20 wide (4X.05). First try .05 over/under the middle. They are the same market makers as the QQQQs.

Middling is a good way to miss the trade if you really need it (trying to get out). You may be trying to save .05 and end up losing 1.00 more more. MMs do not come to work to middle the market all day. You only get middles when a customer meets you in the middle but more often when the market moves to your value (your bid was fair value when initiated but over valued when filled).



## CB slingshot

Hi Charles and all other participants.

ANALYZING: CB

BETA WEIGHTED: (NONE)

| STOCK PRICE | 94.84 | 113.81  |
|-------------|-------|---------|
| P/L OPEN    | 20.24 | 1500.14 |
| P/L DAY     | 20.24 | 1500.14 |
| DELTA       | 19.77 | 99.40   |
| GAMMA       | 9.82  | .14     |
| THETA       | -3.54 | -.56    |
| VEGA        | 17.40 | .56     |

Columns Price step Columns

LESS 18.968 MORE

DRAG CHART TO PANDRAG PRICES TO... CLICK CHART FOR DATA

ADD SIMULATED TRADES

STK PRICE: 94.84

DELTA: 19.77

GAMMA: 9.82

THETA: -3.54

VEGA: 17.40

P/L OPEN: \$20.24

P/L DAY: \$20.24

BP EFFECT: \$0.00

PLOT RISK PROFILE

PROBABILITY ANALYSIS

VOLATILITY ANALYSIS

POSITIONS AND SIMULATED TRADES

click to set params

DELETE SIMULATED TRADES

RESET PARAMETERS

Interest: 3.75%

Date: 4/11/05

|                                     |           | SPREAD                       | SIDE | QTY | SYMB... | SPC    | EXP | STRIKE | TYPE  | PRICE  | VOL    | DELTA |  |
|-------------------------------------|-----------|------------------------------|------|-----|---------|--------|-----|--------|-------|--------|--------|-------|--|
| <input checked="" type="checkbox"/> | ALL       | Show All                     |      |     |         |        |     |        |       |        |        |       |  |
| <input checked="" type="checkbox"/> | CB        | Single Symbol - NOT WEIGHTED |      |     |         |        |     |        |       |        |        |       |  |
| <input checked="" type="checkbox"/> | STK       | 0 CB                         |      |     |         |        |     |        |       |        |        |       |  |
| <input checked="" type="checkbox"/> | BUTTERFLY | BUY                          | +1   | CB  | 100     | DEC 05 | 75  | CA...  | 2.60  | 43.67% | -31.78 |       |  |
|                                     |           | SELL                         | -2   | CB  | 100     | DEC 05 | 85  | CALL   | DEBIT | 27.11% |        |       |  |
|                                     |           | BUY                          | +1   | CB  | 100     | DEC 05 | 95  | CALL   |       | 18.48% |        |       |  |
| <input checked="" type="checkbox"/> | SINGLE    | BUY                          | +1   | CB  | 100     | DEC 05 | 95  | CA...  | 1.40  | 18.48% | 51.55  |       |  |

BETA WEIGHTED: (NONE)

| STOCK PRICE | 94.84  | 113.81  |
|-------------|--------|---------|
| P/L OPEN    | 8.66   | -267.22 |
| P/L DAY     | 8.66   | -267.22 |
| DELTA       | -29.96 | -.53    |
| GAMMA       | -2.11  | .14     |
| THETA       | .97    | -.15    |
| VEGA        | 9.48   | .56     |

Columns Price step Columns  
 18.968

ADD SIMULATED TRADES

PLOT RISK PROFILE

PROBABILITY ANALYSIS

VOLATILITY ANALYSIS

| STK PRICE | DELTA  | GAMMA | THETA | VEGA | P/L OPEN | P/L DAY | BP EFFECT |
|-----------|--------|-------|-------|------|----------|---------|-----------|
| 94.84     | -29.96 | -2.11 | .97   | 9.48 | \$8.66   | \$8.66  | \$0.00    |

POSITIONS AND SIMULATED TRADES

click to set params

DELETE SIMULATED TRADES

RESET PARAMETERS

☒ ALL

Interest 3.75%

Date 4/11/05

|   | SPREAD | SIDE | QTY | SYMB... | SPC    | EXP | STRIKE | TYPE  | PRICE  | VOL    | DELTA |
|---|--------|------|-----|---------|--------|-----|--------|-------|--------|--------|-------|
| <input checked="" type="checkbox"/> CB        |        |      |     |         |        |     |        |       |        |        |       |
| <input checked="" type="checkbox"/> STK       |        |      | 0   | CB      |        |     |        | STOCK | .00    | 0.00%  | .00   |
| <input checked="" type="checkbox"/> BUTTERFLY | BUY    | +1   | CB  | 100     | DEC 05 | 75  | CA...  | 2.60  | 43.67% | -31.78 |       |
|   | SELL   | -2   | CB  | 100     | DEC 05 | 85  | CALL   | DEBIT | 27.11% |        |       |
|   | BUY    | +1   | CB  | 100     | DEC 05 | 95  | CALL   |       | 18.48% |        |       |
| <input checked="" type="checkbox"/> SINGLE    | BUY    | +1   | CB  | 100     | DEC 05 | 95  | CA...  | 1.40  | 18.48% | 51.55  |       |
| <input checked="" type="checkbox"/> SINGLE    | S...   | -1   | CB  | 100     | NOV 05 | 95  | CA...  | 1.20  | 17.07% | -49.73 |       |

At the moment, could short the Nov 95 call to leave us with a Dec 75-85-95 fly plus a Nov-Dec 95 calendar. Would leave us with a risk graph as follows:

## Ri\$k Doctor

## CB slingshot

« **Reply #1 on:** November 08, 2005, 06:43:19 PM »

The Slingshot will not do well at 95 but calendarizing the extra long DEC 95 call will improve the situation. After the NOV expires worthless, you will be back into the Slingshot. If the NOV is assigned, the extra DEC 95 Call will turn into a synthetic DEC 95 Put, so change the simulation to be a 95 put after NOV expiration for 95 and lower.



ohlala

CB slingshot

« Reply #2 on: November 13, 2005, 06:01:55 PM »

Hi Charles and all other participants,  
Here is the situation as of today, the stock is at 97.75 and is not at point where I would initiate the trade at.  
Time to adjust if suitable adjustments available:

- 1. Buy 2\*85-90-95-100 Dec condor to result in Dec 80-90-100 slingshot. Also roll the 75 calls into Dec 80 or into the 85??s to have unbalanced slingshot.

This adjustment reduces the max risk of the trade to ~\$300 but also the delta if the stock were to move higher. We could add an extra Dec 100 call to increase the upward firepower if you had an upside bias.

This seems to be the most conducive adjustment given no strikes higher than 100 for the Dec series. The Problem that I see if the stock stays put at the current level or moves sideways but doesn't get beyond 102.5 before expiration the trade will loose. I don't see the stock going past 102.5 prior to Dec expiration. Given my stock prediction I'm inclined to a trade that would benefit if the stock stayed between the current level and 102.5. Unfortunately there are no options higher than 100 and this leaves me with the decision to exit the trade for a \$95 profit. I'm not willing to adjust just for the sake of it and hence this decision.

I??d like to hear your opinions if you would do it different and your thoughts about why.

Also with regards to there being no strikes higher than 100, do the MMs add further strikes as the Dec turn into the front month options? The NOVs have options up to the 115 strike? Or is it left to the MM when they feel like adding them they do so?

Sathya



Ri\$k Doctor

CB slingshot

« Reply #3 on: November 15, 2005, 11:37:50 AM »

In the meantime, know that MMs will make you a market on any strike.

If you want the DEC 105s I think they are worth about .10 less than half of the DEC 100s at the moment. EX. if the 100s are 1.00 then the 105s would be about .45.

You won't be able to click it but the broker can call it in and get a quote. Once filled, you should see it the next day in the listing and on your statement. Open Interest = your trade.

Ri\$k Doctor

CB slingshot

« Reply #5 on: February 01, 2006, 02:33:35 PM »

GoldenBear: Buying the call and selling the put is the same as buying more stock. Stock is a better thing to trade because the bid/ask spread is tighter. This stock is un hedged. When the stock is slightly (the amount of carry) under the strike (in equities with no dividend) the call and put combo will be valued at even money.

It is still buying stock but probably better to use support areas rather than combos at even to be the reason to add more stock to the position.

Owning, now 200 shares and short 2 call spreads and long a put dissects to a butterfly, long 2 calls and shout a put.

GoldenBear

CB slingshot

« Reply #4 on: January 31, 2006, 02:07:23 AM »

I was thinking about this slingshot hedge. With a long put and two call credit spreads we are hedging fairly strongly to the downside. I was thinking that if ones outlook was neutral-to-bullish, then one could buy back one of the calls and sell a put at the same strike. This would flatten the region between the two strikes (at expiration) as you have a bull spread working against a bear spread. The further you get away from expiration, the more it looks like the stock. If the price drifts down below the lower call, then one would buy back the put and sell the call again, putting you back into the slingshot hedge. I imagen that the best time to flip the call and put is when they are the same price, or even a 0.05 credit to help pay commisions, but I am not sure what those prices would be. Charles, did you look at this before? It is feasible?

Rob

|    | C     | D            | E   | F   | G  | H   | I   | J             | K     | L     | M      | P   | R          | T   |
|----|-------|--------------|-----|-----|----|-----|-----|---------------|-------|-------|--------|-----|------------|-----|
| 11 |       |              |     |     |    |     | 2   | Net Contracts |       | (1)   |        |     |            |     |
| 12 |       | PivotK       | 95  |     |    |     |     |               |       |       | PivotK | 100 |            |     |
| 13 | Month |              | 2   |     |    |     |     |               |       |       |        |     |            |     |
| 14 |       | Raw Position |     |     |    |     |     | Butterfly     |       |       |        |     | Work Sheet |     |
| 15 |       | nC           | rC  | K   | rP | nP  | K   | Bfly1         | Bfly2 | Bfly3 | K      | C   | K          | P   |
| 34 |       |              |     | 85  |    |     | 85  |               |       |       | 85     |     | 85         |     |
| 35 |       |              |     | 90  | 1  | 1   | 90  |               |       |       | 90     |     | 90         |     |
| 36 |       |              | (2) | 95  |    | (2) | 95  | 1             |       | 1     | 95     |     | 95         |     |
| 37 |       | 2            | 2   | 100 |    |     | 100 |               |       |       | 100    | 2   | 100        | (1) |
| 38 |       |              |     | 105 |    |     | 105 |               |       |       | 105    |     | 105        |     |