





























Ri\$K Doctor Forums

Hello **Ri\$K Doctor**



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Hello **Ri\$ Doctor**



 Author

Topic: Dissection Homework (Read 1687 times)

Ri\$ Doctor
Administrator
Hero Member

Posts: 3247



Dissection Homework
« on: May 25, 2005, 03:17:21 PM »

A government estimate will be announced in one minute. Which one (only one) vehicle (futures or calls, or puts) would you like or buy or sell, and in what quantity in order to neutralize to a safe exposure (Hint: Card up and dissect position.) Remember to check your Net Call Units and Net Put Units.

1. The DJX is at 102.80. You are short 16 futures, long 27 of the 104 calls and short 16 of the 104 puts.
2. The Bonds are at 103.02. You are short 15 of the 103 calls and long 13 of the 103 Puts.
3. The Bonds are at 102.30. You are short 58 futures, long 61 of the 103 calls and short 35 of the 103 puts.
4. The DJX is at 104.42. You are short 24 of the 102 calls and long 32 of the 102 Puts.

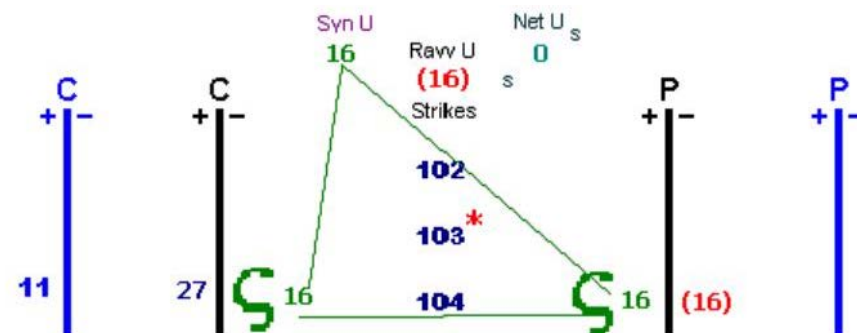


Dissection Homework

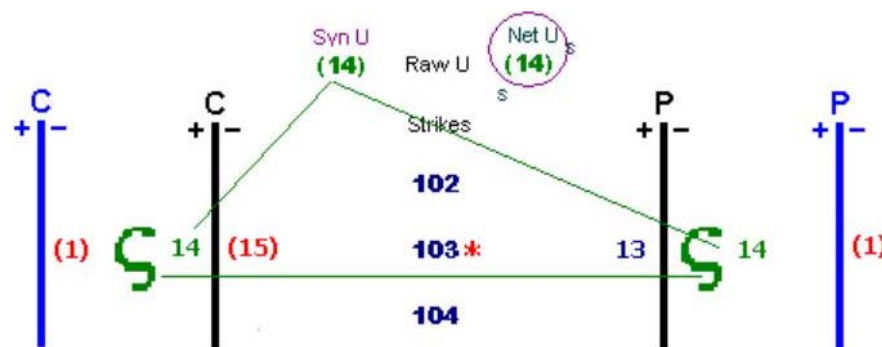
« Reply #1 on: August 15, 2005, 08:24:53 AM »

A government estimate will be announced in one minute. Which one (only one) vehicle (stock or calls, or puts) would you buy or sell, and in what quantity in order to neutralize to a safe exposure (Hint: Card up and dissect position.) Remember to check your Net Call Units and Net Put Units.

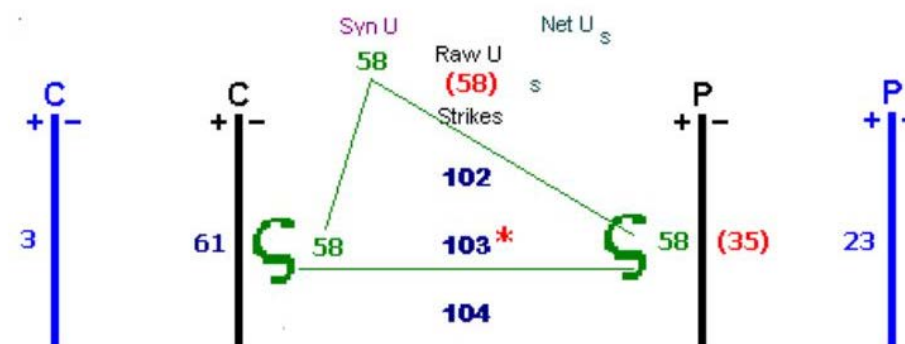
1. The DJX is at 102.80. You are short 16 futures, long 27 of the 104 calls and short 16 of the 104 puts. **Sell 11 104 calls.**



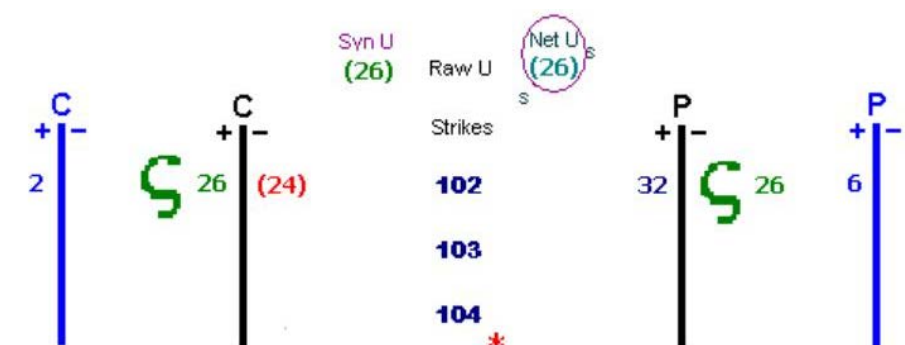
2. The Bonds are at 103.02. You are short 15 of the 103 calls and long 13 of the 103 Puts. **Buy 14 Futures. If the buy only 13 they will be short 2 calls or if they buy 15 futures they will be short 2 puts. Less of a bias if sell 14.**



3. The Bonds are at 102.30. You are short 58 futures, long 61 of the 103 calls and short 35 of the 103 puts. **Sell 20 puts.**



4. The DJX is at 104.42. You are short 24 of the 102 calls and long 32 of the 102 Puts. **Buy 26 futures. Buying 28 would give you 4 straddles but they would be quite long delta.**



mrnash

RD TODAY

Newbie

★

Posts: 9



Re: Dissection Homework

« Reply #2 on: June 18, 2010, 11:28:44 PM »

Charles,

The other evening, I finished segments 1 and 2 of the RD1 series and answered the first question (EBAY). I was glad to see that I got almost everything correct including the carding and dissecting parts.

This evening, I went to answer the other questions (government announcement) and that was when someone turned on an egg beater inside my head. I realized that my correct dissection of EBAY was an accident.

I went to the answers and tried to reverse engineer the question to see what I was missing and learn that way. It was during that moment that I sent to you the message (thanks for responding so quickly at a late hour).

I went to the forum recalling that I had seen something about the SynTool and found a post in this area. Another forum member shared his insight about the SynTool that made it all "click." I went back to the questions and could follow what was happening; even the questions where no underlying was in the original position (the options enabled one to see how many synthetic underlying shares were needed to interpret and act on the position).

I went back to Chapter 1 to see if I had missed that same insight about how the SynTool is designed to address the underlying in a position and understand the position with just options. There is a very vague and subtle hint but nothing that emphasizes that point to the degree that the reader would make the connection. An example would have been helpful.

In short, the reason for my note has now been taken care of. I'm sure there will be future tests of my new found understanding. I anticipate that the remaining segments in RD1 will be more enlightening now that I'm more comfortable with the SynTool.

Have a great weekend.

Malcolm

Ri\$K Doctor

Administrator

Hero Member

★★★★★

Posts: 3247

Qoff

Members

Newbie

★

Posts: 40



Re: Dissection Homework

« Reply #3 on: June 22, 2010, 08:15:46 PM »

It takes time and a little practice but it will click, eventually.

Re: Dissection Homework

« Reply #4 on: July 28, 2010, 05:51:50 PM »

mrnash:

Would you please copy and paste in this section the insight on the SynTool that made things click for you? Like you, I thought I understood dissection with the eBay example and then had difficulty with the "government" problems.

Thank you for your time -
Qoff

James Parker

RDCC

Full Member

★

Posts: 207



Re: Dissection Homework

« Reply #5 on: July 29, 2010, 12:06:24 AM »

Qoff

I still remember the day the SynTool clicked for me.
It is really a way of converting Underlying Units into their Options equivalent and then merging them with the rest of the Options units in the position.
If **U = +C -P** at any strike you choose then it becomes an algebraic / substitution exercise.

If we take a covered call: Long 100 shares / Short 1 call at 103 strike

- 1. Convert Shares into Options equivalent; 100 shares = +1c 103 / -1c 103
- 2. Merge into position; [+1c 103 / -1p 103] -1c 103
- 3. Aggregate units at each strike [~~+1c 103~~/ -1p 103] ~~-1c 103~~ = -1p 103

Hence, as we know, covered call at 103 strike = short put at 103 strike.

Hope that helps
James

Qoff

Members

Newbie

★

Posts: 40



Re: Dissection Homework

« Reply #6 on: November 30, 2010, 11:24:32 AM »

James,

I just saw your reply. (I guess I failed to request notification for replies to this thread.) This is a great help. Thank you!!! 😊

You wrote: "If **U = + C - P** at any strike you choose . . .". So . . . are Exhibits 1-1 and 1-2 supposed to demonstrate that any strikes can be chosen for Option Metamorphosis in Exhibits 2-11 and 2-12, as long as we follow the higher/lower strike guidelines?

Thanks,
Regina (Qoff)

Ri\$k Doctor

Administrator

Hero Member

★★★★★

Posts: 3247



Re: Dissection Homework

« Reply #7 on: November 30, 2010, 01:04:28 PM »

YES!

Ri\$K Doctor Forums



Hello **Ri\$K Doctor**

Author

suresh

COMPANION

Newbie

★
Posts: 1



Dissection Questions

« on: November 02, 2010, 05:57:37 AM »

Charles,

As suggested by you, the OTTHR compannion package (consisting of RD1, RD2 and the PDF of OTTHR) was very useful in understaning the concepts of dissection mainly Position Dissection Video Series was very useful in understanding the different tools (Sync Tool, BoxTool & WingTool) which were used to dissect the positions. Thanks for recommending the same.

Please correct me the followings if I am wrong in understanding.

- The SynTool tool is used to dissect if the underlying is present and use either Conversion or Reversal to remove the underlying and transfer it either to calls or puts.
- The BoxTool is used to move calls or puts from one strike to other and we use this tool only when there is no underlying present. Since we use both a Conversion and a Reversal at same time to move the calls and puts the underlying part cancels each other out.
- The Jelly roll is same as box but we use for time spreads.
- And regarding the WingTool, I have attached my spread sheet named Wing Spread.xls worked out from your wingspreads lessons Chapter 6. Could you please have a quick look and comment if anything is wrong.

	A	B	C	D	E	F	G	H	I	J	K
1		Strikes	85	90	95	100	105	110	115	120	125
2											
3		One Strike Butterfly 85/90/95	1	-2	1						
4											
5											
6		Two Strike Butterfly 85/95/105									
7		Babies									
8	1	85/90/95	1	-2	1						
9	2	90/95/100		1	-2	1					
10	3	90/95/100		1	-2	1					
11	4	95/100/105			1	-2	1				
12		Preg. Butterfly 85/95/105	1		-2		1				
13											
14											
15		Three Strike Butterfly 85/100/115									
16		Babies									
17	1	85/90/95	1	-2	1						
18	2	90/95/100		1	-2	1					
19	3	90/95/100		1	-2	1					
20	4	95/100/105			1	-2	1				
21	5	95/100/105			1	-2	1				
22	6	95/100/105			1	-2	1				
23	7	100/105/110				1	-2	1			
24	8	100/105/110				1	-2	1			
25	9	105/110/115					1	-2	1		
26		Preg. Butterfly 85/100/115	1			-2			1		
27											
28											
29		Four Strike Butterfly 85/105/125									
30		Babies									
31	1	85/90/95	1	-2	1						
32	2	90/95/100		1	-2	1					
33	3	90/95/100		1	-2	1					
34	4	95/100/105			1	-2	1				
35	5	95/100/105			1	-2	1				
36	6	95/100/105			1	-2	1				
37	7	100/105/110				1	-2	1			
38	8	100/105/110				1	-2	1			
39	9	100/105/110				1	-2	1			
40	10	100/105/110				1	-2	1			
41	11	105/110/115					1	-2	1		
42	12	105/110/115					1	-2	1		
43	13	105/110/115					1	-2	1		
44	14	110/115/120					1	-2	1		
45	15	110/115/120					1	-2	1		
46	16	115/120/125						1	-2	1	
47		Preg. Butterfly 85/105/125	1				-2			1	

	A	B	C	D	E	F	G	H	I	J	K	L	M
1		Strikes	85	90	95	100	105	110	115	120	125	130	135
49													
50		Five Strike Butterfly 85/110/135											
51		Babies											
52	1	85/90/95	1	-2	1								
53	2	90/95/100		1	-2	1							
54	3	90/95/100		1	-2	1							
55	4	95/100/105			1	-2	1						
56	5	95/100/105			1	-2	1						
57	6	95/100/105			1	-2	1						
58	7	100/105/110				1	-2	1					
59	8	100/105/110				1	-2	1					
60	9	100/105/110				1	-2	1					
61	10	100/105/110				1	-2	1					
62	11	105/110/115					1	-2	1				
63	12	105/110/115					1	-2	1				
64	13	105/110/115					1	-2	1				
65	14	105/110/115					1	-2	1				
66	15	105/110/115					1	-2	1				
67	16	110/115/120						1	-2	1			
68	17	110/115/120						1	-2	1			
69	18	110/115/120						1	-2	1			
70	19	110/115/120						1	-2	1			
71	20	115/120/125							1	-2	1		
72	21	115/120/125							1	-2	1		
73	22	115/120/125							1	-2	1		
74	23	120/125/130								1	-2	1	
75	24	120/125/130								1	-2	1	
76	25	125/130/135									1	-2	1
77		Preg. Butterfly 85/110/135	1					-2					1

	A	B	C	D	E	F	G	H	I
1	Strikes		85	90	95	100	105	110	115
81									
82	Skip One Strike Butterfly 85/95/100								
83	Babies								
84	1	85/90/95	1	-2	1				
85	2	90/95/100		1	-2	1			
86	3	90/95/100		1	-2	1			
87	Preg. Butterfly 85/95/100		1		-3	2			
88									
89									
90	Skip Two Strike Butterfly 85/100/105								
91	Babies								
92	1	85/90/95	1	-2	1				
93	2	90/95/100		1	-2	1			
94	3	90/95/100		1	-2	1			
95	4	95/100/105			1	-2	1		
96	5	95/100/105			1	-2	1		
97	6	95/100/105			1	-2	1		
98	Preg. Butterfly 85/100/105		1			-4	3		
99									
100									
101	Skip Three Strike Butterfly 85/105/110								
102	Babies								
103	1	85/90/95	1	-2	1				
104	2	90/95/100		1	-2	1			
105	3	90/95/100		1	-2	1			
106	4	95/100/105			1	-2	1		
107	5	95/100/105			1	-2	1		
108	6	95/100/105			1	-2	1		
109	7	100/105/110				1	-2	1	
110	8	100/105/110				1	-2	1	
111	9	100/105/110				1	-2	1	
112	10	100/105/110				1	-2	1	
113	Preg. Butterfly 85/105/110		1				-5	4	
114									
115									
116	Skip Four Strike Butterfly 85/110/115								
117	Babies								
118	1	85/90/95	1	-2	1				
119	2	90/95/100		1	-2	1			
120	3	90/95/100		1	-2	1			
121	4	95/100/105			1	-2	1		
122	5	95/100/105			1	-2	1		
123	6	95/100/105			1	-2	1		
124	7	100/105/110				1	-2	1	
125	8	100/105/110				1	-2	1	
126	9	100/105/110				1	-2	1	
127	10	100/105/110				1	-2	1	
128	11	105/110/115					1	-2	1
129	12	105/110/115					1	-2	1
130	13	105/110/115					1	-2	1
131	14	105/110/115					1	-2	1
132	15	105/110/115					1	-2	1
133	Preg. Butterfly 85/110/115		1					-6	5

	A	B	C	D	E	F	G	H	I	J
1	Strikes		85	90	95	100	105	110	115	120
135										
136	Skip Five Strike Butterfly 85/115/120									
137	Babies									
138	1	85/90/95	1	-2	1					
139	2	90/95/100		1	-2	1				
140	3	90/95/100		1	-2	1				
141	4	95/100/105			1	-2	1			
142	5	95/100/105			1	-2	1			
143	6	95/100/105			1	-2	1			
144	7	100/105/110				1	-2	1		
145	8	100/105/110				1	-2	1		
146	9	100/105/110				1	-2	1		
147	10	100/105/110				1	-2	1		
148	11	105/110/115					1	-2	1	
149	12	105/110/115					1	-2	1	
150	13	105/110/115					1	-2	1	
151	14	105/110/115					1	-2	1	
152	15	105/110/115					1	-2	1	
153	16	110/115/120						1	-2	1
154	17	110/115/120						1	-2	1
155	18	110/115/120						1	-2	1
156	19	110/115/120						1	-2	1
157	20	110/115/120						1	-2	1
158	21	110/115/120						1	-2	1
159	Preg. Butterfly 85/115/120		1						-7	6

	A	B	C	D	E	F	G	H	I	J	K
1	Strikes		85	90	95	100	105	110	115	120	125
161											
162	Skip Six Strike Butterfly 85/120/125										
163	Babies										
164	1	85/90/95	1	-2	1						
165	2	90/95/100		1	-2	1					
166	3	90/95/100		1	-2	1					
167	4	95/100/105			1	-2	1				
168	5	95/100/105			1	-2	1				
169	6	95/100/105			1	-2	1				
170	7	100/105/110				1	-2	1			
171	8	100/105/110				1	-2	1			
172	9	100/105/110				1	-2	1			
173	10	100/105/110				1	-2	1			
174	11	105/110/115					1	-2	1		
175	12	105/110/115					1	-2	1		
176	13	105/110/115					1	-2	1		
177	14	105/110/115					1	-2	1		
178	15	105/110/115					1	-2	1		
179	16	110/115/120						1	-2	1	
180	17	110/115/120						1	-2	1	
181	18	110/115/120						1	-2	1	
182	19	110/115/120						1	-2	1	
183	20	110/115/120						1	-2	1	
184	21	110/115/120						1	-2	1	
185	22	115/120/125							1	-2	1
186	23	115/120/125							1	-2	1
187	24	115/120/125							1	-2	1
188	25	115/120/125							1	-2	1
189	26	115/120/125							1	-2	1
190	27	115/120/125							1	-2	1
191	28	115/120/125							1	-2	1
192	Preg. Butterfly 85/120/125		1							-8	1

In Exhibit 7-13 in Hidden Reality book you mentioned Two of the 16 ways in Call Diagonal dissection example, my question is how do we know the number of ways we can dissect any position – is there a formula for defining it?

EXHIBIT 7 – 13

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

10 APR 65 / -10 JAN 75 Call Diagonal <i>With Imaginary Trade Applied</i>		Equals	10 APR / JAN 75 Call Time Spread Plus APR 65 / 75 Call Bull Vertical		OR	10 APR / JAN 65 Call Time Spread Plus JAN 65 / 75 Call Bull Vertical	
Calls	JAN		Calls	JAN		Calls	JAN
	65			65		10 10	65
	70			70			70
10	75		10	75		10	75
	APR			APR			APR
10	65		10	65		10	65
	70			70			70
	75		10 10	75			75

Could you please send me any actual trades which have gone bad, using PD excel spread sheet, that you made the trade either breakeven or profit. This will help me to understand how we can use PD spread sheet efficiently to trade various spreads with ease.

Finally I have attached one recent trade in IBM which has gone bad and I entered the trade in PD spread sheet. Is there any chance to make this trade either to profitable or breakeven position using PD spread sheet. The trade is short IBM call vertical 135/140 sold for 2.10 credit.

	C	D	E	F	G	H	I	J	K	L	M	P	R	T
11														
12														
13	Month		PivotK 141									PivotK		
14														
15	nC	rC	K	rP	nP	K		Bfly1	Bfly2	Bfly3	K	C	K	P
35			125			125					125		125	
36			130			130					130		130	
37			(1) 135		(1)	135					135		135	(1)
38			1		1	140					140		140	1
39						145					145		145	
58			Net			Net					Net		Net	

Regards,
Suresh.

Ri\$ Doctor

Administrator

Hero Member

Posts: 3247



Re: OTTHR Companion Package

« Reply #1 on: November 02, 2010, 01:44:09 PM »

- a) The SynTool is mostly used if there is a position in the underlying and you are correct but even a position had no underlying, the SynTool could be used to create a position in the Underlying and that could be useful when the options are not liquid trading the underlying after hours.
- b) Mostly Correct but the Box Tool can be used even if there is a position in the underlying.
- c) The Jelly Roller dissects a double Calendar (one long and one short) but it's main purpose is to move combos or synthetic underlying between months.
- d) All is correct in your first set of spreadsheets. There is something wrong in the last spreadsheet (see below).
- Regarding Exhibit 7-13, I do not know of any formula defining all possible dissections.

Quote

Could you please send me any actual trades which have gone bad, using PD excel spread sheet, that you made the trade either breakeven or profit.

There are countless examples using PD but PD does not turn Losers into Winners. PD shows you alternatives or perhaps the easiest way to liquidate or adjust a position.

Quote

Is there any chance to make this trade either to profitable or breakeven position using PD spread sheet. The trade is short IBM call vertical 135/140 sold for 2.10 credit."

Firstly, you have an error in choosing a PivotK that is not one of the strikes. With IBM at 143 you would probably use 140 or 145 as a PivotK:

	C	D	E	F	G	H	I	J	K	L	M	P	R	T
11														
12														
13	Month		PivotK 141									PivotK		
14														
15														
35														
36														
37														
38														
39														
58														

Secondly, Position Dissection will quickly show you that your 135/140 Call Credit is synthetically the 135/140 Put Debit Spread. With Position Dissector, you still* have to do the math to add the (normally \$5.00) Box to the \$2.10 Call Credit Spread to get the Synthetic \$2.90 Put Debit Spread.

With IBM over 140 your call spread is higher and synthetically your long put spread is lower. Both lose. I know of no magic that can turn a loser into a winner without the market coming back. If Position Dissector could do that, we could rule the World.

BTW: You did not specify if your Credit Spread was in the NOV, DEC or JAN, etc. If it is NOV or DEC you have another problem: The Dividend on November 8th. Any call whose corresponding Put is less than the .65 dividend will be exercised. The NOV 135/140 Box can be greater than 5.00, by the Dividend amount less the put. Right now that looks like:

- NOV Strikes: 135 and Lower.
- DEC Strikes: 130 and Lower.
- JAN11 Strikes: 120 and Lower.

The NOV 135/140 Box is pricing at 5.28ish:

IBM International Business Machines Corp.										B: 143.84 A: 144.25		143.84	+5 +0.					
UNDERLYING																		
	Last X	Net Chng	Bid X	Ask X	Size	Volume	Open	High	Low									
	143.84	N +.52	143.84	144.25	P 1 x 2	4,596,609	143.85	144.71	143.71									
	Yield	PE	EPS	Div	Div.Freq	Div.Date	52High	52Low	Beta	P/C Ratio	Shares							
	1.81%	13.11	10.97	.65	Q	11/8/10	144.26	116.00	1	0.496	1,242,361,000							
TRADE GRID																		
OPTIONS																		
Spread: Single Layout: Last X, Mark, Delta Exchange: Composite																		
CALLS																		
Strikes: 10																		
PUTS																		
	Last X	Mark	Delta	Bid X	Ask X	Exp	Strike	Bid X	Ask X	Last X	Mark	Delta						
NOV 10 (17) 100 21.52%																		
	22.95	Q	23.875	.94	23.80	C	23.95	C	NOV 10	120	.08	I	.10	C	.10	X	.09	-02
	17.65	Q	18.875	.95	18.80	C	18.95	A	NOV 10	125	.12	I	.15	C	.13	I	.135	-03
	13.85	N	13.875	.95	13.80	C	13.95	C	NOV 10	130	.18	X	.20	X	.18	I	.19	-05
	8.80	A	8.925	.94	8.85	C	9.00	C	NOV 10	135	.36	I	.38	C	.37	C	.37	-10
	4.30	Q	4.35	.79	4.30	C	4.40	C	NOV 10	140	1.00	X	1.02	X	1.01	N	1.01	-26
	1.26	C	1.275	.40	1.26	I	1.29	I	NOV 10	145	3.05	A	3.10	I	3.10	A	3.075	-58
	.25	I	.245	.11	.24	I	.25	N	NOV 10	150	7.00	C	7.10	C	6.80	C	7.05	-80
	.05	C	.06	.03	.05	X	.07	A	NOV 10	155	11.80	C	11.95	C	11.70	X	11.875	-87
	.03	Q	.025	.01	.01	C	.04	I	NOV 10	160	16.75	C	16.90	C	17.80	N	16.825	-90
	.03	C	.01	.00	0	N	.02	N	NOV 10	165	19.40	C	23.70	C	0		21.55	-94
DEC 10 (45) 100 19.81%																		
	21.50	X	24.25	.92	22.60	C	25.90	C	DEC 10	120	.21	C	.25	I	.22	N	.23	-04
	19.25	C	18.875	.95	18.80	C	18.95	C	DEC 10	125	.34	N	.36	X	.35	Q	.35	-06
	14.30	X	14.15	.91	13.90	C	14.40	C	DEC 10	130	.56	I	.59	X	.58	C	.575	-10
	9.43	I	9.325	.86	9.25	C	9.40	C	DEC 10	135	1.06	I	1.09	I	1.08	C	1.075	-18
	5.45	Q	5.35	.68	5.30	C	5.40	X	DEC 10	140	2.16	I	2.19	X	2.14	Z	2.175	-34
	2.56	Q	2.525	.44	2.50	C	2.55	I	DEC 10	145	4.25	C	4.35	C	4.40	X	4.30	-55
	.92	A	.945	.22	.93	I	.96	C	DEC 10	150	7.65	C	7.80	C	8.45	Q	7.725	-75
	.31	C	.315	.09	.30	I	.33	C	DEC 10	155	12.05	C	12.20	C	11.90	I	12.125	-86
	.12	C	.105	.03	.09	C	.12	C	DEC 10	160	16.60	C	17.00	C	19.54	C	16.80	-92
	.04	C	.055	.02	.03	X	.08	C	DEC 10	165	19.80	C	23.70	C	0		21.75	-94
JAN 11 (80) 100 22.73%																		
	24.90	A	24.10	.93	23.70	C	24.50	C	JAN 11	120	.58	C	.63	C	.59	C	.605	-07
	19.50	Q	19.15	.92	19.05	C	19.25	C	JAN 11	125	.87	X	.91	C	.89	I	.89	-11
	14.73	C	14.575	.86	14.50	C	14.65	C	JAN 11	130	1.35	X	1.38	X	1.33	C	1.365	-16
	10.58	C	10.375	.76	10.30	C	10.45	C	JAN 11	135	2.18	C	2.22	N	2.12	C	2.20	-25
	6.90	Q	6.775	.63	6.70	C	6.85	C	JAN 11	140	3.55	X	3.65	C	3.45	X	3.60	-38
	3.95	I	3.95	.46	3.90	C	4.00	C	JAN 11	145	5.70	C	5.80	I	5.66	I	5.75	-53
	2.05	Q	2.045	.30	2.03	X	2.06	I	JAN 11	150	8.75	C	8.90	C	8.56	C	8.825	-69
	.98	C	.95	.17	.93	I	.97	X	JAN 11	155	12.65	C	12.85	C	13.00	C	12.75	-82
	.43	A	.42	.09	.40	I	.44	C	JAN 11	160	16.30	C	17.35	C	17.20	N	16.825	-95

If today were the Ex-Dividend Date, the 135/140 Box would be worth about 5.28. (5.00 Strike Difference + Dividend of .65 - .37ish, the current price of the 135 put). Currently the Box is pricing at 5.21ish (the Call Spread is 4.57ish (8.925ish minus 4.35ish) and that Put Spread is .64ish (1.01ish minus .37ish). It makes sense that it would be a bit cheaper because IBM could Drop and perhaps the 135 Put would rally to being above .65 making the 135 Call not worth Exercising for the Dividend. That is with a break in the market. What about a rally? For example, If there was a \$10 Rally in IBM, today, the NOV 135/140 Box worth only about 5.12, 120 and 125 Calls going to Parity and judging from the current NOV 120 and 125 Put prices (.23 and .35) the Put spread going to .12. 5.00 plus .12 equals 5.12.



Author

options2010

Newbie



Posts: 1



Conversion/Reversal (Question)

« on: September 13, 2010, 09:06:09 AM »

Hi

I just started to view videos for RDI. In Chapter 1 Exhibit 1-1 and Exhibit 1-2 shows the trade P/L is zero regardless the spot price of the stock. In real life for a retail investor this case is impossible after including the spreads and commission (zero p/l). How much this is true for a market maker as he cannot delta hedge in a sec and create a CUP without loss.

Tell me if i am missing something here.

Ri\$ Doctor

Administrator

Hero Member



Posts: 3247



Re: Conversion/Reversal (Question)

« Reply #1 on: September 13, 2010, 10:05:09 AM »

I know it is a pain to learn and hard to understand why you will benefit from this knowledge and Yes, you are missing something, starting with the discussion going back to Page 1. In summary, a retail investor will most likely not trade reversals or conversions unless they have legged into one, probably starting with a Covered Write (CW) or Married Put MP) that was locked in with the subsequent purchase of the corresponding Put (for the CW) or sale of the corresponding Call (for the MP). Market Makers, you will learn, end up with reversals and conversions at almost every strike via their delta neutralizing every (99.999999%) single options trade with stock or futures (more in Chapter 4 on Ratioed Straddles).

It may be hard to believe, but the purpose of the exercise with Exhibit 1-1 and 1-2 is to prove the synthetic equivalence. This understanding will be the seed level consciousness necessary to going on to trade Verticals, Calendars, Butterflies Condors, BrokenWings, etc. efficiently and successfully.



Credit (spreads)

« on: September 01, 2010, 04:17:22 am

Pages: [1]

mark88

RD1

Newbie

Posts: 3

Hi.

In Chapter 1 you mention that credit (spreads) are NOT better than debit as the former often increases over time when theta decay would have you think otherwise.

Is one way of understanding this:

... because often over time the position becomes more risky and as such a larger payment is required to have someone else put on (or assume) the position?

Thanks,

Mark

Ri\$k Doctor

Administrator

Hero Member



Posts: 3243



Re: Credit (spreads)

« **Reply #1 on:** September 03, 2010, 03:48:17 pm »

That was not the point that I was making. Sorry, let me try again. For example, 5 pt. Call and Put Verticals have a reciprocal relationship. An ITM Call Credit Spread (say \$4.00) will increase overtime (to \$5.00) as its reciprocal (same strikes) OTM Put Debit Spread (\$1.00) shrinks to zero. In other words, if you sold the Call Vertical for \$4.00, and your wife bought the Put Vertical for 1.00, you would both would have the same destiny, risking \$1.00 to make \$4.00.

bbrooker81

RD TODAY

Newbie



Posts: 4



Break Even Analysis

« on: December 12, 2009, 03:48:34 PM »

OTTHR6, exhibits 6-18, 19 & 21 show that by adding component butterflies, we can build stretched out condors and bigger, wider butterflies. I found this appealing as I can add and subtract component butterflies, verticals and condors with measured profit & loss parameters to either broaden or reduce exposure to the market (all for a price, of course!)

With so many possible embedded butterflies, I was uncertain about how to compute break-evens. On a separate issue I am interested in forecasting butterfly prices over the life of the option.

Refer to the table of prices below for options on the spot EURUSD. Prices are in pips (\$10/pip.) EURUSD at 1.4621. Duration 34 days.

The 4600/4350/4100 put fly costs 63 pips. I put that fly 250 pips out of the money as I expect the underlying to show downside weakness during the course of the option cycle.

The ATM 4850/4600/4350 costs 80 pips. I want to monitor that fly just in case the underlying stays near 1.4600. Further, having monitored ATM B-fly prices approaching expiration, I have observed that prices increase to 90 pips with as few as 12 days remaining.

Suppose the EURUSD does in fact stay near 1.4600 and I end up buying the ATM fly for 90 pips.

Q: What did I build by doing so?

A: I built a condor with 1.4600 and 1.4350 as the short strikes and 1.4850 and 1.4100 as the long wings

Q: Where are my break-evens since I just added an additional B-fly?

A: The total cost of the two flies is 153 pips. Therefore the breakeven is 153 pips from the winged options.

Puts	Strike	Calls
551-561	1.5150	14-24
507-517	1.5100	20-30
464-474	1.5050	27-37
423-433	1.5000	36-46
383-393	1.4950	46-56
345-355	1.4900	58-68
309-319	1.4850	72-82
275-285	1.4800	87-97
243-253	1.4750	10-116
213-223	1.4700	12-136
186-196	1.4650	14-158
161-171	1.4600	17-183
139-149	1.4550	20-212
119-129	1.4500	23-242
102-112	1.4450	26-275
87-97	1.4400	30-310
73-83	1.4350	33-346
61-71	1.4300	37-384
51-61	1.4250	41-424
42-52	1.4200	45-465
35-45	1.4150	49-507
28-38	1.4100	54-551
23-33	1.4050	58-595
18-28	1.4000	63-641

Ri\$kh Doctor

Administrator
Hero Member

★

★

★

★

★

Posts: 3247



Re: Break Even Analysis

« Reply #1 on: December 12, 2009, 09:05:57 PM »

You've got it. 1.4253 and 1.4697.

Ri\$kh Doctor

Administrator
Hero Member

★

★

★

★

★

Posts: 3247



Re: Break Even Analysis

« Reply #2 on: December 13, 2009, 10:52:53 AM »

From James Parker:

Charles ... I have prepared some Screenshots for EURUSD a little quick and dirty but “illustrates” the issues raised option pricing approximate as I don’t have access to fx option prices but the principles cast in stone ... cheers, James

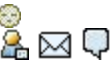
Awesome James, Thank you.




Author

Topic: Gamma Scalping every Bonds every 20_ticks (Read 175 times)

\$eaTrader
Members
Jr. Member
☆☆
Posts: 79




 **Gamma Scalping every Bonds every 20_ticks**
« on: July 03, 2009, 06:42:26 AM »

Hey Charles,

In the RD video you mentioned that you ask a broker to scalp every 20 ticks.

Q. It's not clear to me as to what you looked at to determine that 20_ticks. I know you probably used delta but how did you know a constant 20 ticks would work??

 \$eaTrader

Ri\$ Doctor
Administrator
Hero Member
☆☆☆☆☆
Posts: 3247

 **Gamma Scalping every Bonds every 20_ticks**
« Reply #1 on: July 08, 2009, 07:06:42 AM »

20 Ticks was the point where the position manufactured 6 futures. My personal Max-Size Futures exposure at the time in my career.



Author

edsyl
Newbie
★
Posts: 26



Ri\$K Doctor
Administrator
Hero Member
★★★★★
Posts: 3247



The Box
« on: April 18, 2009, 09:09:18 AM »

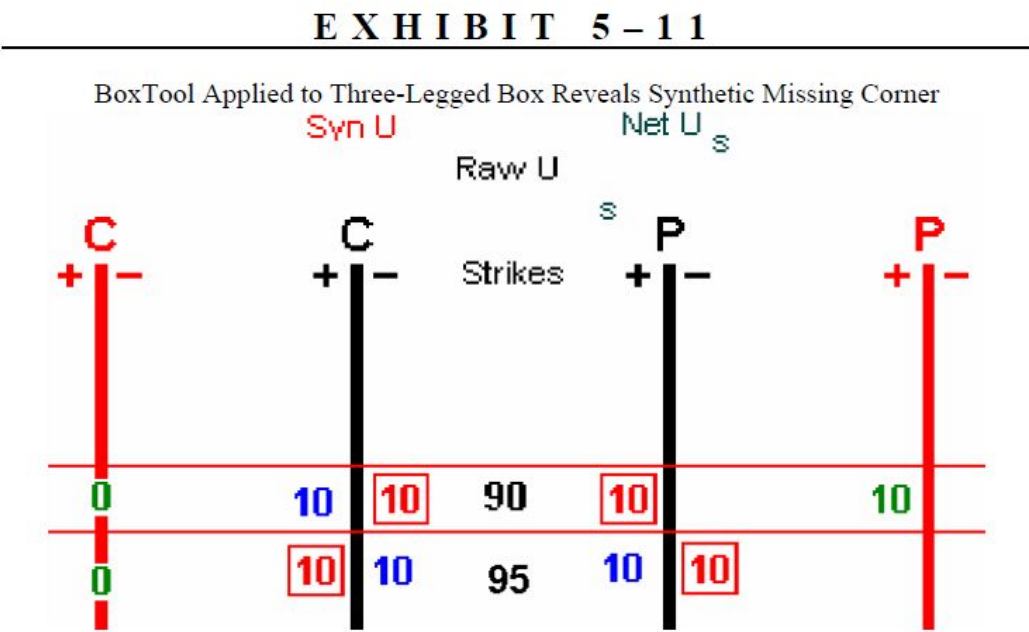
After reading the section over and over I fail to see how adding a four position 'box' is not affecting the original position or distorting it. The SynTool makes sense as all components of the addition are zero sum. This is NOT the case however with the box tool. From what I can see there will always be a bias equal to the value of the spread of the box, so in my mind it is an approximation.

Can someone clarify this or tell what I am missing from all this?
Regards
Ed

The Box
« Reply #1 on: April 24, 2009, 11:42:07 AM »

I am not sure what you are asking but the box value holds pretty much like the SynTool shows about Reversals and Conversions. The Box only differs from the SynTool in that it is 2 Sets of SynTools at 2 different strikes (one long and one short) where the 2 Syntools showing long and short Underlying offset each other.

The point of a box is that it uncovers the nature of your risk in a simpler fashion, like in the following example from Chapter 5. The actual position is in Blue, the Box Dissection in Red, uncovering the exposure of a long cheap Put in Green:





(edsyl @ Apr. 18 2009,1:09)

QUOTE

After reading the section over and over I fail to see how adding a four position 'box' is not affecting the original position or distorting it.

The SynTool makes sense as all components of the addition are zero sum.

This is NOT the case however with the box tool.

From what I can see there will always be a bias equal to the value of the spread of the box, so in my mind it is an approximation.

Can someone clarify this or tell what I am missing from all this?

Regards

Ed

Boxes are a bit like riding a bike difficult to explain how but relatively easy when you have practiced a bit

I will have a go at explaining a simplified approach to boxes and address some of your questions ..

- a box consists of 2 different elements that nett out at expiry to zero

- for example $2 + (+z - z) = 2$

- a Long Box consists of

* a Long Call Vertical Spread (+z)

* a Long Put Vertical Spread (-z)

- for example

* a Long 10 point box at strikes 750 - 760 =

* [Long 750 - 760 Call Vertical] + [Long 750 - 760 Put Vertical]

* will cost approx 10 point debit

* will be worth 10 point credit on expiry

* total impact on position = 0

- however, as Charles says, using boxes to dissect a position can reveal useful insights

- for example lets say you have sold a Guts strangle [-750call / - 760put] for 13 points credit

- in order to dissect you have to

* -750call / -760put = +13 points

* +750call / -760call = Call Vertical }

* -750put / +760put = Put Vertical } - 10 points

= -750put / -760call = + 3 points

- The ITM Guts strangle for 13 points dissects into an OTM strangle for 3 points

- The 13 points received for the guts strangle is 'illusory' as on expiry the embedded box will result in a debit of 10 points.

Does this help any?

Cheers

James



Thanks for the reply,
I have one question about this statement:

- The 13 points received for the guts strangle is 'illusory' as on expiry the embedded box will result in a debit of 10 points.

How could the box be 'embedded' when it was only inserted to dissect the original position? I mean it was never really there until we inserted it?

Confusing.
Regards
Ed

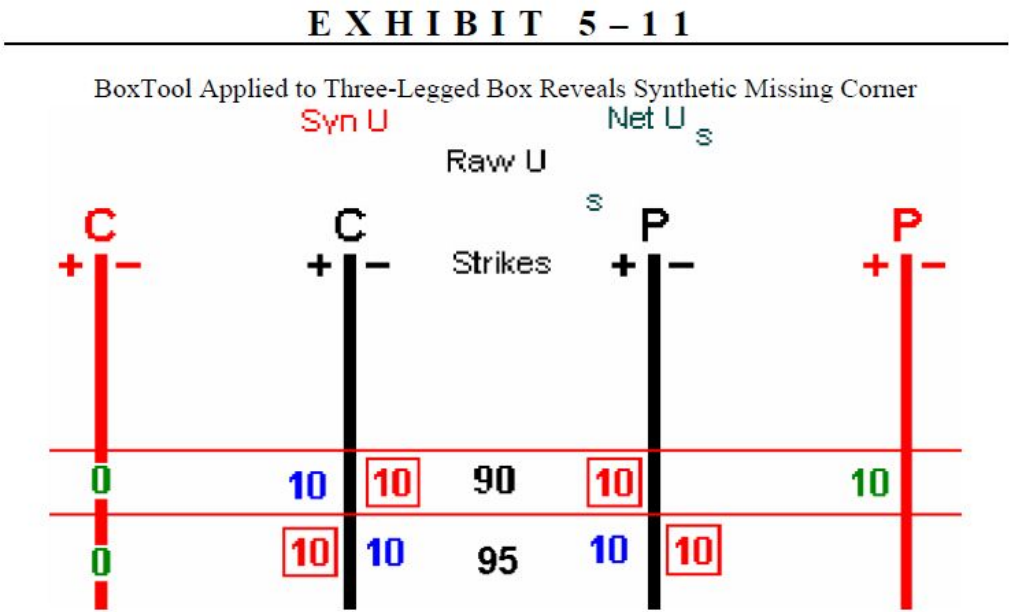


(Risk Doctor @ Apr. 24 2009,3:42)

QUOTE

I am not sure what you are asking but the box value holds pretty much like the SynTool shows about Reversals and Conversions. The Box only differs from the SynTool in that it is 2 Sets of SynTools at 2 different strikes (one long and one short) where the 2 Syntools showing long and short Underlying offset each other.

The point of a box is that it uncovers the nature of your risk in a simpler fashion, like in the following example from Chapter 5. The actual position is in Blue, the Box Dissection in Red, uncovering the exposure of a long cheap Put in Green:



BoxTool: Using the BoxTool is basically taking out a conversion at one strike and a reversal at the other, without the underlying positions that would offset each other. Once one of these locked positions is removed from the position, we can then see a new position. The C/R and box positions are referred to as zero-sum spreads, meaning they are basically flat.

The Box only differs from the SynTool in that it is 2 Sets of SynTools at 2 different strikes (one long and one short) where the 2 Syntools showing long and short Underlying offset each other.

I think that the above in italics would have been a much better choice of wording than what I quoted from the book IMHO. It made alot more sense when looked at in this way.

I still do not quite understand these 'embedded' boxes as we are the one that put them in there to dissect, it is not as if they were there to begin with. Perhaps you can explain a bit more?

Regards,
Ed



The Box

« **Reply #5 on:** April 25, 2009, 07:03:48 AM »

(James Parker @ Apr. 25 2009,6:43)

QUOTE

- for example

- * a Long 10 point box at strikes 750 - 760 =
- * [Long 750 - 760 Call Vertical] + [Long 750 - 760 Put Vertical]
- * will cost approx 10 point debit
- * will be worth 10 point credit on expiry
- * total impact on position = 0

What I see here is that the box will maintain at least 10 in value regardless of the underlying movement.
You are assuming the price of entry is roughly equal, but that would not always be the case, would it?

So it is an approximation then?

As to my first comment, I agree that the position is flat but it does add a DC bias to the AC (electronic analogy) position if you will.

That was my original point

regards

ed



The Box

« **Reply #6 on:** April 25, 2009, 01:20:22 PM »

Question on dissection 2:

QUOTE

If Gil chooses to view his position as in dissection 2 (Exhibit 2??7), and feels like taking a bit of money off the table, he may want to sell 10 of the 50 straddle to be left with a steeper 50/55 put ratio spread (+30 by ??50) each (+1 by ??1.6) for a 1.80 debit (5.00 minus [1.6*2.00]).

What was the reason to select 50 straddles to sell?

I sort of see the logic from this box discussion. Is this an 'embedded box' that we are removing because it is money wasted on a 'flat' position?

Thanks in advance,
I have a couple more to follow.

Regards
Ed



edsyl
Newbie
★
Posts: 26



The Box

« **Reply #7 on:** April 25, 2009, 01:22:20 PM »

Question on dissection 3:

If Gil chooses to view his position as in dissection 3 (Exhibit 2?? 😊), he may want to buy 10*55p leaving the 30*(??1 by +1.33) call back spread. This would only be prudent if the trader thought it likely that the underlying would spike up with an extended move, without, or in spite of, a collapse in implied volatility. Breaking down hard would also allow the 1.67 credit to be kept, if both calls go out worthless. A slow move upward to 55 would be the worst case for this position.

So the idea here was to 'simplify' the net position so that you could clearly see that the call back spread is an example of how the position can be changed after dissection?

edsyl
Newbie
★
Posts: 26



The Box

« **Reply #8 on:** April 25, 2009, 01:25:17 PM »

Question on dissection 5:

This creates 10*(??1 by +2) call back spread at 1.00 credit (2 x 1.00 debit versus a 3.00 credit) and 10* (+1 by ??2) put ratios spread for a 1.00 debit (2 x 2.00 credit, versus a 5.00 debit). By viewing the position that results from dissection 5 (Exhibit 2-10), it is evident that buying 10*45p would turn the put side into a long butterfly, which would limit the exposure to an amount equaling the cost of the 45 put. This purchase could easily be financed by capturing excess premium

from the sale of up to 10*55 calls. If the trader likes the value of the butterfly and/or it meets with his or her market opinion, the above dissection leads to a rather simple adjustment.

I don't understand the thinking behind the selling of the calls. If I sell an additional 10 55 calls, the I would be net 0 calls, is that what you are trying to imply?

Thanks
Ed

Ri\$k Doctor

Administrator

Hero Member

★★★★★

Posts: 3247



The Box

« Reply #9 on: April 27, 2009, 01:38:04 PM »

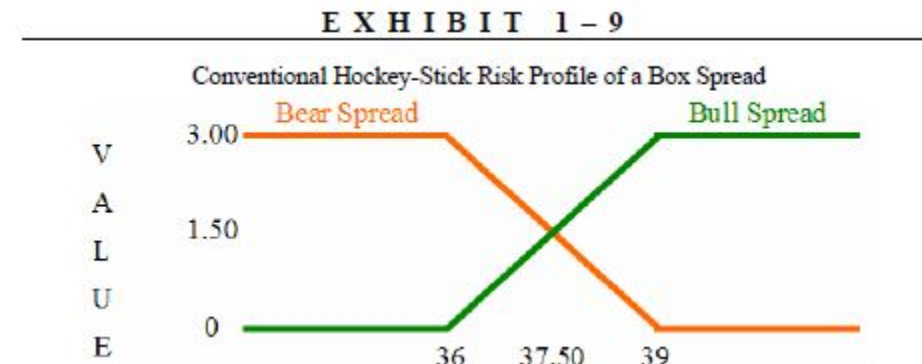
I will get to your other questions but for now:

QUOTE

The Box only differs from the SynTool in that it is 2 Sets of SynTools at 2 different strikes (one long and one short) where the 2 Syntools showing long and short Underlying offset each other.

I think that the above in italics would have been a much better choice of wording than what I quoted from the book IMHO. It made alot more sense when looked at in this way.

A Bull Spread vs. a Bear Spread is shown in Exhibit 1-9:



Sorry, I guess I should not have relied on a picture painting a thousand words (not the right words) in this case.

edsyl

Newbie

★

Posts: 26



The Box

« Reply #10 on: April 27, 2009, 04:39:49 PM »

Charles:

I am only trying to give feedback as to what might help to make it better.

I am sure if I am having issues, others will as well.

I think one of the problems is all the different visual terms: hockey stick, the box spread, and basically flat.

What would have been more effective and drive the point home would have been applying two syntools to a position and then showing how that morphs to your box tool.

The next thing is that the concept of synthetics is very useful, but we make the jump to use a dissection to change a position by synthetics (very complex ones VERY quickly, I might add). Without the understanding of the nuances of ratio spreads and the like a lot of this discussion goes flying overhead really quickly.

What is also lost in here is the idea of things being 'embedded' in a position.

Just what do you mean by that exactly? Why is it important?

The issue being if you don't clearly grasp it in this chapter, you will never get it in the later chapters.

More words and examples, a slower pace, and ease up on the complexity of the examples in the first chapters would go a long way.

Less is more in this case.

I really think that a lot of people get turned off by frustration pretty quickly. But I'm stubborn I guess.

Just my two cents worth as I slog through the very content packed material in the text.

Regards

Ed

James Parker

RDCC
Full Member
★
Posts: 207

**The Box**

« **Reply #11 on:** April 29, 2009, 12:22:21 AM »

(edsyl @ Apr. 25 2009,10:45)

QUOTE

Thanks for the reply,

I have one question about this statement:

- The 13 points received for the guts strangle is 'illusory' as on expiry the embedded box will result in a debit of 10 points.

How could the box be 'embedded' when it was only inserted to dissect the original position? I mean it was never really there until we inserted it?

Confusing.

Regards

Ed

Ed

Hi, agreed, it can be incredibly confusing and frustrating to try and understand boxes from first principles as just doesn't seem to make sense embedded positions, imaginary trades, etc however, please persevere as it will revolutionise your perception of option positions.

In respect of your question see if this makes sense ...

ITM GUTS Strangle = OTM Strangle + Box
13 points = 3 points + 10 points

Re-arrange ...

ITM Strangle - Box = OTM strangle
13 points - 10 points = 3 points

I know it looks like we are re-arranging the deck chairs on the titanic, but in reality we are trying to see the position in its simplest form.

Cheers

James

edsyl

Newbie
★
Posts: 26

**The Box**

« **Reply #12 on:** April 29, 2009, 05:10:36 AM »

Thanks James, much appreciated.

It looks to me like all these tolls are used to try to look at a given position in ways that allow adjustments in many ways depending upon the lay of the land at that given market moment.

I have added questions previously about certain conclusions about the box dissection.

Have a look and maybe you can give me your two cents(debit or credit, you decide...lol)

Regards

Ed

James Parker

RDCC
Full Member
★
Posts: 207



The Box

« **Reply #13 on:** April 29, 2009, 06:47:32 AM »

(edsyl @ Apr. 29 2009,9:10)

QUOTE

Thanks James, much appreciated.

It looks to me like all these tolls are used to try to look at a given position in ways that allow adjustments in many ways depending upon the lay of the land at that given market moment.

I have added questions previously about certain conclusions about the box dissection.

Have a look and maybe you can give me your two cents(debit or credit, you decide...lol)

Regards

Ed

Ed

The ability to dissect a position has numerous advantages ...

- Evaluating a position in its most simple form for example it is easier to understand an OTM strangle for 3 points credit has a maximum profit on expiry of 3 points between the strikes than an ITM strangle for 13 points credit, that has a maximum profit of 3 points between the strikes

- Adjustments if you wanted to close the ITM strangle prior to expiry you have 2 choices

Adjustment 1 Buy back the ITM strangle for say 11 points nett profit of 2 points [13 - 11] position closed

Adjustment 2 Buy an OTM strangle for 1 point nett credit is 12 points [13 -1] nett profit of 2 points [13 - 1 - 10 box] the position you are left with is a short box

- Long Put / Short Call at the lower strike

- Short Put / Long Call at the higher strike

Wherever the underlying expires, the short box position you are left with is closed for a debit of 10 points.

The reason you would adjust/close using the OTM strangle is that the OTM options are often more liquid and have narrower bid-ask spreads.

Cheers

James

edsyl

Newbie
★
Posts: 26



The Box

« **Reply #14 on:** May 05, 2009, 03:29:24 PM »

Risk Doctor:

Still waiting fro replies to questions above!

Regards

Ed

Ri\$ Doctor

Administrator
Hero Member
★★★★★
Posts: 3247



The Box

« Reply #15 on: May 07, 2009, 05:44:47 AM »

QUOTE

Question on dissection 2:

I sort of see the logic from this box discussion. Is this an 'embedded box' that we are removing because it is money wasted on a 'flat' position?

EXHIBIT 2 - 7

2.) Long 10 ITM Calls at 3.00 and a Put Ratio Spread 30*(+1 by -1.33) at a 2.33 Debit

<i>nc</i>		<i>rc</i>		<i>u=51.00</i>			<i>rp</i>		<i>np</i>	
+	-	+	-				+	-	+	-
10		20	10	3.00	50	2.00	10	50		40
		10	10	1.00	55	5.00	40	10		30
+10		+10					-10		-10	
Box Value = 5,000 dr. Calls Net Value = 3,000 dr. Puts Net Value = 7,000 dr.										

Wasted? on a Flat Position? Where did you get this idea? Let's rewind: We remove (dissect out) boxes from a position to uncover the essence of the position to gain a different perspective for the purpose of generating an idea for a trade adjustment.

QUOTE

What was the reason to select 50 straddles to sell?

The reason someone would perhaps choose to sell this straddle is to 1) get rid of the 50 Calls that don't seem to fit in or make any sense in owning and to create a kind of 'normal' put spread relationship that would be easy to manage.

Ri\$ Doctor

Administrator
Hero Member
★★★★★
Posts: 3247



The Box

« Reply #16 on: May 07, 2009, 05:48:47 AM »

QUOTE

Question on dissection 3:

So the idea here was to 'simplify' the net position so that you could clearly see that the call back spread is an example of how the position can be changed after dissection?

EXHIBIT 2 - 8

3.) 30*(-1 by +1.33) Call Back Spread at 1.67 Credit and Short 10 ITM Puts at 5.00

<i>nc</i>		<i>rc</i>		<i>u=51.00</i>			<i>rp</i>		<i>np</i>	
+	-	+	-				+	-	+	-
30		20	50	3.00	50	2.00	50	50		
40		50	10	1.00	55	5.00	40	50		10
+10		+10					-10		-10	
Box Value = 25,000 dr. Calls Net Value = 5,000 cr. Puts Net Value = 5,000 cr.										

Right.



QUOTE
Question on dissection 5:

This creates 10*(??1 by +2) call back spread at 1.00 credit (2 x 1.00 debit versus a 3.00 credit) and 10* (+1 by ??2) put ratios spread for a 1.00 debit (2 x 2.00 credit, versus a 5.00 debit). By viewing the position that results from dissection 5 (Exhibit 2-10), it is evident that buying 10*45p would turn the put side into a long butterfly, which would limit the exposure to an amount equaling the cost of the 45 put. This purchase could easily be financed by capturing excess premium from the sale of up to 10*55 calls. If the trader likes the value of the butterfly and/or it meets with his or her market opinion, the above dissection leads to a rather simple adjustment.

I don't understand the thinking behind the selling of the calls. If I sell an additional 10 * 55 calls, then I would be net 0 calls, is that what you are trying to imply?

EXHIBIT 2 - 10

5.) 10*(-1 by +2) Call Back Spread at 1.00 Credit and
10*(+1 by -2) Put Ratio Spread for a 1.00 Debit

<i>nc</i>		<i>rc</i>		<i>u=51.00</i>		<i>rp</i>		<i>np</i>	
+	-	+	-			+	-	+	-
10		20	30	3.00	50	2.00	30	50	20
20		30	10	1.00	55	5.00	40	30	10
+10		+10					-10		-10
Box Value = 15,000 dr. Calls Net Value = 1,000 cr. Puts Net Value = 1,000 dr.									

Selling the excess calls is just a means to generate funds to be provided for purchasinf the unwanted excess 45 Puts. The Net Calls going to "0" is simply a consequence. They don't 'need' to be sold, they just 'can' be sold.



QUOTE
Question on dissection 5:

This creates 10*(??1 by +2) call back spread at 1.00 credit (2 x 1.00 debit versus a 3.00 credit) and 10* (+1 by ??2) put ratios spread for a 1.00 debit (2 x 2.00 credit, versus a 5.00 debit). By viewing the position that results from dissection 5 (Exhibit 2-10), it is evident that buying 10*45p would turn the put side into a long butterfly, which would limit the exposure to an amount equaling the cost of the 45 put. This purchase could easily be financed by capturing excess premium from the sale of up to 10*55 calls. If the trader likes the value of the butterfly and/or it meets with his or her market opinion, the above dissection leads to a rather simple adjustment.

I don't understand the thinking behind the selling of the calls. If I sell an additional 10 * 55 calls, then I would be net 0 calls, is that what you are trying to imply?

EXHIBIT 2 - 10

5.) 10*(-1 by +2) Call Back Spread at 1.00 Credit and
10*(+1 by -2) Put Ratio Spread for a 1.00 Debit

<i>nc</i>		<i>rc</i>		<i>u=51.00</i>		<i>rp</i>		<i>np</i>	
+	-	+	-			+	-	+	-
10		20	30	3.00	50	2.00	30	50	20
20		30	10	1.00	55	5.00	40	30	10
+10		+10					-10		-10
Box Value = 15,000 dr. Calls Net Value = 1,000 cr. Puts Net Value = 1,000 dr.									

Selling the excess calls is just a means to generate funds to be provided for purchasinf the unwanted excess 45 Puts. The Net Calls going to "0" is simply a consequence. They don't 'need' to be sold, they just 'can' be sold.

Ri\$k Doctor

Administrator

Hero Member



Posts: 3247



The Box

« **Reply #19 on:** May 07, 2009, 06:53:34 AM »

QUOTE

The next thing is that the concept of synthetics is very useful, but we make the jump to use a dissection to change a position by synthetics (very complex ones VERY quickly, I might add). Without the understanding of the nuances of ratio spreads and the like a lot of this discussion goes flying overhead really quickly.

What is also lost in here is the idea of things being 'embedded' in a position.

Just what do you mean by that exactly? Why is it important?

The issue being if you don't clearly grasp it in this chapter, you will never get it in the later chapters.

More words and examples, a slower pace, and ease up on the complexity of the examples in the first chapters would go a long way.

Less is more in this case.

I really think that a lot of people get turned off by frustration pretty quickly. But I'm stubborn I guess.

Just my two cents worth as I slog through the very content packed material in the text.

Thank you James for jumping in where you have and trying to help. Your answers, examples and insights are correct and greatly appreciated.

Ed: Perhaps "slogging through" each sentence and then running to the forum to get clarification would not be as fruitful as reading the first 5 chapters and creating an opportunity of having the 'lights' go on and having an "AHA!" moment. The purpose of this chapter was not to 'teach' ratio spreads right then and there but to show the reader tools and plant seeds for the eventual bigger picture about what one can do with options, risk management and gaining a greater perspective of the reality of a position in all its complexities.

I am sorry if the process is painful. A lot of people teach ratio spreads as do I starting in Chapter 5, but the real purpose of "The Hidden Reality" is to show you something that many have found to be 'options life changing'. It is not particularly hard but it is new to most of us and it takes a little going through before an epiphany can occur. Some get it immediately, most don't and have to 'slog' through it.

Movie analogies to make my point:

We did not know that Darth Vader was Luke Skywalker's father until the end of that Star Wars Movie.

We did not know how Bruce Wayne discovered the Bat Cave until the prequel "Batman Begins" came out.

Do you know how Peter Pan got his magical powers and began to fly? I do. The prequel "Peter and the Star Catchers" is Great! and I recommend it.

These things explain everything. The Box Discussion is the Prequel to your higher options consciousness. You are probably right about the fact that I should have started slower

QUOTE

What would have been more effective and drive the point home would have been applying two syntools to a position and then showing how that morphs to your box tool.

You are probably right about this. I coulda and maybe shoulda and if I was you I woulda done this. Sorry. Hey, I know. Write a book on it. I may even buy it.



(Ri\$k Doctor @ May 07 2009,9:57)

QUOTE

Selling the excess calls is just a means to generate funds to be provided for purchasing the unwanted excess 45 Puts. The Net Calls going to "0" is simply a consequence. They don't 'need' to be sold, they just 'can' be sold.

OK, so the idea here was NOT to zero out the net call position then?

There is no negative consequences of selling les than 10 other than zeroing out the net calls simplifies things?

What 45 PUTs? I don't see any here? '>' 🤔

Did you mean 55?

(Ri\$k Doctor @ May 07 2009,10:53)

QUOTE

[/quote]

Ed: Perhaps "slogging through" each sentence and then running to the forum to get clarification would not be as fruitful as reading the first 5 chapters and creating an opportunity of having the 'lights' go on and having an "AHA!" moment.

Trust me I have read the first five chapters a number of times. I do not run to forums willy nilly.

the real purpose of "The Hidden Reality" is to show you something that many have found to be 'options life changing'. It is not particularly hard

What IS that 'something', the use of the dissection tools?

Quote from: Ri\$k Doctor,May 07 2009,9:44

QUOTE

Question on dissection 2:

I sort of see the logic from this box discussion. Is this an 'embedded box' that we are removing because it is money wasted on a 'flat' position?

EXHIBIT 2 - 7									
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nc		rc		u=51.00		rp		np	
+ -		+ -				+ -		+ -	
10		20	10	3.00	50	2.00	10	50	40
		10	10	1.00	55	5.00	40	10	30
+10		+10				-10		-10	
Box Value = 5,000 dr. Calls Net Value = 3,000 dr. Puts Net Value = 7,000 dr.									

Wasted? on a Flat Position? Where did you get this idea? Let's rewind: We remove (dissect out) boxes from a position to uncover the essence of the position to gain a different perspective for the purpose of generating an idea for a trade adjustment.

QUOTE

What was the reason to select 50 straddles to sell?

The reason someone would perhaps choose to sell this straddle is to 1) get rid of the 50 Calls that don't seem to fit in or make any sense in owning and to create a kind of 'normal' put spread relationship that would be easy to manage.

The point I was trying to get at in my untrained way was that the box position ties up capital for a fixed return I guess.

How did the idea of the box dissection ever come about?

Is the box the most important concept to grasp in the book,if not what is?

I thought that was the idea of a box, extracting out a zero bias position to make looking at an existing position simpler and easier to manage.

Why the box, is it a derivation from the reversal conversion equations?

Thanks again

Ed

Ri\$k Doctor
Administrator
Hero Member
★★★★★
Posts: 3247



The Box

« **Reply #21 on:** May 14, 2009, 07:37:05 AM »

QUOTE

What 45 PUTs? I don't see any here: :)

Did you mean 55?

Nope. 45s. The 45 puts that you could buy to complete a low-risk Butterfly and button-up your open-ended exposure.

QUOTE

How did the idea of the box dissection ever come about?

I don't know how it came about. I only know how why I gravitated to the concept and why it has been important for traders to use in transforming their performance in a positive way.

QUOTE

Is the box the most important concept to grasp in the book, if not what is?

The box is only one of many tools and I don't think that there is any one concept that is the "Most Important". The Box helps us to see the big picture.

QUOTE

I thought that was the idea of a box, extracting out a zero bias position to make looking at an existing position simpler and easier to manage.

Absolutely.

QUOTE

Why the box, is it a derivation from the reversal conversion equations?

It's not. It is just the simultaneous application of both a reversal at one strike with a conversion at another strike.



edsyl
Newbie
★
Posts: 26



initial commentary

« on: March 31, 2009, 12:58:05 PM »

I have viewed the first three hours of the RD1 series and I have some comments:

1. You know your stuff.
2. For an 'introductory course' you surely turn on the fire hose really quick.
3. Using the textbook as a basis for your presentation is a little confusing, for those of use who have not purchased it.
4. Powerpoint or Keynote slides with a specific agenda and flow would be conducive to imparting the most knowledge in a clear and uncluttered fashion. IMHO
5. We jump into synthetic positions and 'SYNTOOLS' really quickly without any warning. I have done a lot of prep work and I found myself lost on more than one occasion
6. Gamma scapling for an introductory course.....really? How many of new to options folks would have the wherewithal to understand the implications of it or even what gamma actually is?
7. Why is the position dissector NOT included for this course since it IS a central focus of a lot of the discussions. I don't want an open office application and/or the hassle in installing it and getting it to run especially since I already have Office on the MAC and PC. Why yet another application?

Don't take these as negatives as I picked up a number of interesting perspectives from the three hours, but there was a LOT of head scratching. Please take these as suggestions for improvement.

I will post more after the next three hours.

Regards
Ed

lyrical_s
Newbie
★
Posts: 13



initial commentary

« Reply #1 on: April 01, 2009, 08:39:51 AM »

Ill take a stab at your points FWIW

I do not think there is one person who has read Charles book and understood everything in the first reading.

I would say that the concepts aren't as easy to present on paper as in person, hence webinars.

I think Charles states at the beginning this is not a book for beginners...thats why the first chapter is "Picking up where the others left off...."
So your point about Gamma Scalping is a bit void.

Open Office is open source, so I think the idea was to build PD in that and other coders to improve upon it.

edsyl
Newbie
★
Posts: 26



initial commentary

« Reply #2 on: April 01, 2009, 09:47:19 AM »

(lyrical_s @ Apr. 01 2009,12:39)

QUOTE

Ill take a stab at your points FWIW

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So your point about Gamma Scalping is a bit void.

Open Office is open source, so I think the idea was to build PD in that and other coders to improve upon it.

Thanks for the reply.

His approach and presentation in the book is unique to the options education space.

Webinars I do not have a problem with, but jumping back and forth amongst the pages of the text takes a lot of time, and my comment is that a focused presentation would be much more beneficial to all.

I know it is NOT a beginner book, but gamma scapling is NOT something that even a medium level course broaches in any meaningful way. My point was focusing on a SIMPLER example of conversion and synthesis would not blow the socks off the inductees.

I think open source is nice, but if I have Office on two platforms, what is the value add for me to install a new platform on both a MAC and PC for just the ONE application? Who has the time for that?

The Excel version exists, it is used in the web class, not the Open Source version BTW(why is that?) , and the same argument can be made as far as custom improvements to the Excel version.

I am trying to help with constructive ideas so that the course will be more easily absorbed and used by those genuinely interested.

Mental bludgeoning (perhaps too harsh) by jargon and volume of information does not help one comprehend the ying and yang of options much less encourage the time and effort that would pay rewards in the long run.

JMHO

Regards

Ed

lyrical_s
Newbie
★
Posts: 13



initial commentary

« Reply #3 on: April 01, 2009, 11:24:23 AM »

(edsyl @ Apr. 01 2009,1:47)

QUOTE

Mental bludgeoning (perhaps too harsh) by jargon and volume of information does not help one comprehend the ying and yang of options much less encourage the time and effort that would pay rewards in the long run.

Hey Ed,

You'll comprehend everything quicker by trading/applying to the market. Sitting around complaining about the format of presentation and software wont get you there quicker (might be a bit harsh).

I figured out how the SynTool worked etc by myself and was quite rewarding. It's all part of the learning process.

You can download openoffice which is free, and convert the file to excel format. Otherwise you will have to pay for the unique software.



edsyl
Newbie
★
Posts: 26



initial commentary

« **Reply #4 on:** April 01, 2009, 02:44:36 PM »

<!--QuoteBeginlyrical_s+Apr. 01 2009,3:24--><div>

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Hey Ed,

You'll comprehend everything quicker by trading/applying to the market. Sitting around complaining about the format of presentation and software wont get you there quicker (might be a bit harsh).

I figured out how the SynTool worked etc by myself and was quite rewarding. It's all part of the learning process.

Please explain to me how you figured out the Stn Tool.

I would appreciate that.

Didi you use any of the software?

Regards

Ed

lyrical_s
Newbie
★
Posts: 13



initial commentary

« **Reply #5 on:** April 01, 2009, 06:57:45 PM »

The PD software only dissects out butterflies and calendars (well only the free version I have anyway).

If you understand the concept you can program in excel your own Syn and Box Tools

This is my take on dissection.

Think of dissection like algebra.

You are trying to simplify the equation or produce variants of the same equation.

SynTool will typically apply when you have an underlying exposure in your position e.g. long/short stock

Example:

If you are +100 long stock and -1 short a call, you want to simplify the "equation" by taking out the long stock and be left with a net put/call position - i.e. Options only.

Imagine you are short -100 stock - this will eliminate the +100 stock in the equation.

Since you short the stock, you need to be long synthetically to balance the equation - i.e. long call + short put.

Therefore, originally you were short a call.

The synthetic position will cancel out the calls and leave just the short put

Hence Long stock + short call = short put

Or would you like a powerpoint presentation??



edsyl
Newbie
★
Posts: 26



initial commentary

« **Reply #6 on:** April 02, 2009, 01:44:42 PM »

Now, now play nice...lol

Where does the term Box come from and just what does it mean exactly?

Thanks

Ed

lyrical_s
Newbie
★
Posts: 13



initial commentary

« **Reply #7 on:** April 02, 2009, 03:31:59 PM »

SynTool - you apply conversions or reversals to take out the underlying position to leave net options only equivalents

BoxTool - you apply box spreads to gain different variants

This is what Box refers to
It is a conversion/reversal but all synthetic positions, no underlying

edsyl
Newbie
★
Posts: 26



initial commentary

« **Reply #8 on:** April 02, 2009, 03:52:40 PM »

I think I've figured out the synthetics, the box still eludes me, do I have to think outside of the box?(sorry, can't help myself)

Why would I want to use the box exactly?
Regards
Ed

lyrical_s
Newbie
★
Posts: 13



initial commentary

« **Reply #9 on:** April 02, 2009, 04:46:52 PM »

(edsyl @ Apr. 02 2009,7:52)

QUOTE

I think I've figured out the synthetics, the box still eludes me, do I have to think outside of the box?(sorry, can't help myself)

Why would I want to use the box exactly?
Regards
Ed

I am assuming you know what a box spread is and its pricing.

You would apply Box spreads to Option only positions to try and:

- 1) Further simplify your position
- 2) Gain different perspectives of the one position

It is like an algebra equation

$$\begin{aligned} 2x + 4y \\ 2(x + 2y) \\ 6(1/3x + 2/3y) \end{aligned}$$

Its all the same result, but different ways to view it

I suggest you buy the book and also read Ali's discussion about why butterfly dissection is performed on positions.

Interesting reading!!!

edsyl
Newbie
★
Posts: 26



initial commentary

« **Reply #10 on:** April 02, 2009, 04:50:28 PM »

Ali's discussion:

Float like a butterfly, profit like a bee.
Where does one find this discussion?
I have ordered the book, not here yet.

Reading it at this moment is not an option...lol

Regards
Ed

lyrical_s
Newbie
★
Posts: 13



initial commentary

« **Reply #11 on:** April 02, 2009, 05:06:52 PM »

(edsyl @ Apr. 02 2009,8:50)

QUOTE

Ali's discussion:

Float like a butterfly, profit like a bee.
Where does one find this discussion?
I have ordered the book, not here yet.

Reading it at this moment is not an option...lol

Regards
Ed

Position Dissection section of the forum?
Ill make a powerpoint slide for you 😊

lol: Not reading the book before watching RD1 would defintely leave you lost.



Author

Ri\$ Doctor
Administrator
Hero Member
★★★★★
Posts: 3247



RD1 Videos
« on: December 03, 2008, 02:43:50 PM »

Obviously, we are in tumultuous times where uncertainty is ruling the markets. We are letting everyone benefit from RD1 to help you understand and deal with these uncertain times. While the information in the existing Ri\$ Doctor products are invaluable within itself, it is the new forthcoming information that is important to help you through this period and the future.

RD1 covers Chapter 1 of Option Trading: The Hidden Reality in about 4 hours and paints the landscape of what you really need to know about the options industry landscape. Avoid the potholes like covered writes, especially if they are not suitable for you.

edsyl
Newbie
★
Posts: 26



RD1 Videos
« Reply #1 on: March 29, 2009, 11:35:24 AM »

I signed up, am taking the course, bought the videos, following the process, will give my feedback later
Regards
Ed

Author

Ri\$k Doctor

Administrator
Hero Member



Posts: 3247



Class Materials for RD1

« on: June 01, 2005, 12:27:58 PM »

The main text for this 7 hour video course is Chapter 1 of "Options Trading: The Hidden Reality" which some people consume with the Free 5 Day Course or is included with your downloads with this package. The complete printed-in-color-hardcover-book and/or the PDF version can be purchased separately.

If you are not yet up for the challenge of "Chapter 1: Picking Up Where the Rest Leave Off" there are some other resources for basic options knowledge:

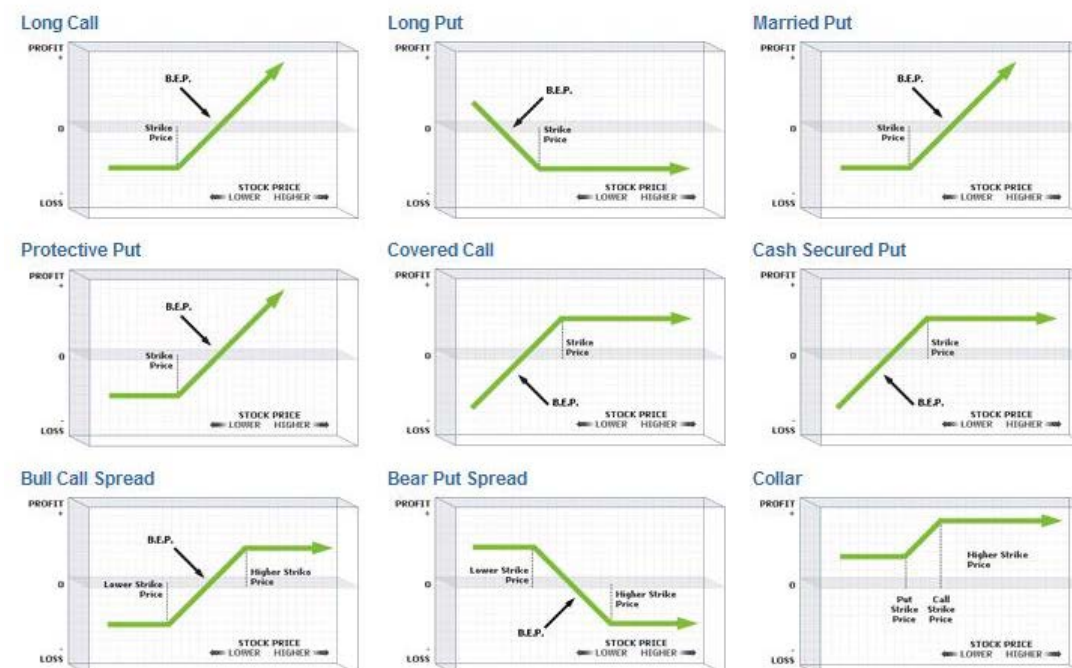
The OCC (Option Clearing Corp.) has had pretty good basic education like their strategy screener:

http://www.888optionsnet.com - Options Investigator | Strategy Screener - Microsoft Internet E...

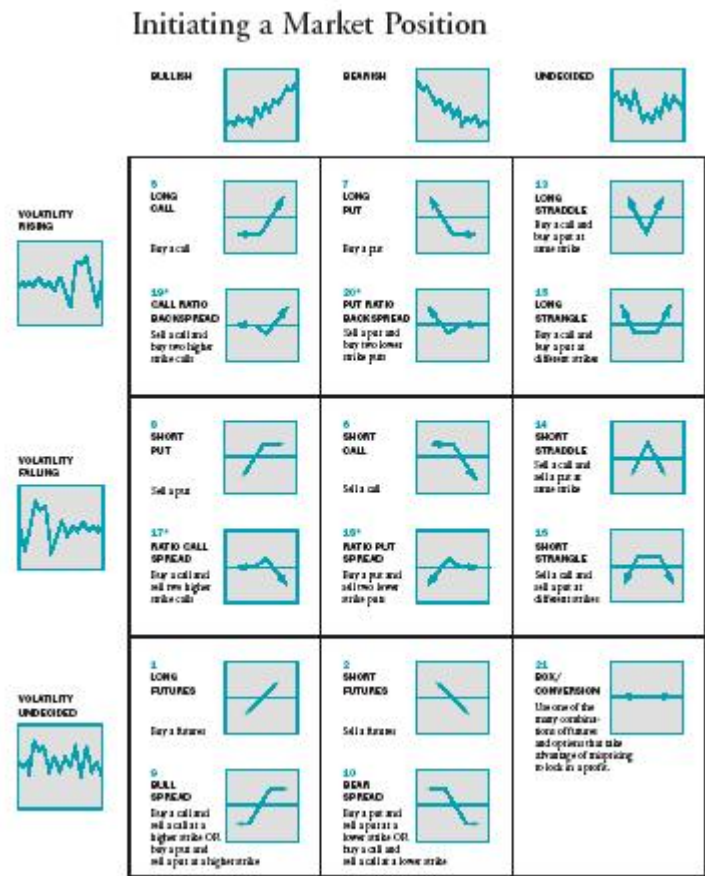
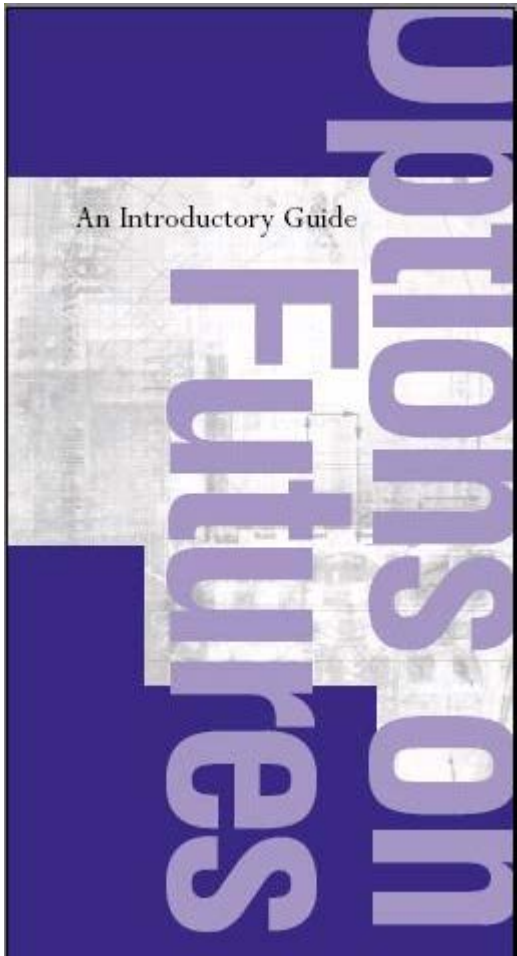
Name	Bullish	Bearish	Neutral	Sharp Move	Long-Term Outlook	Favorable Price Move	Produce Income	Acquire Stock	Hedge Stock	Exit Stock
(sort)	(sort)	(sort)	(sort)	(sort)	(sort)	(sort)	(sort)	(sort)	(sort)	(sort)
Long Stock	Yes	--	--	--	Bullish	Yes	Yes	--	--	--
Short Stock	--	Yes	--	--	Bearish	Yes	--	--	--	--
Long Call	Yes	--	--	Yes	Neutral to bullish	Yes	--	--	--	--
Long Put	--	Yes	--	Yes	Neutral to bearish	Yes	--	--	--	--
Naked Call	--	Yes	Yes	--	Neutral to bearish	--	Yes	--	--	--
Naked Put	Yes	--	Yes	--	Neutral to bullish	--	Yes	--	--	--
Cash Backed Call	Yes	--	--	Yes	Bullish	--	--	Yes	--	--
Covered Call	Yes	--	Yes	--	Bullish	--	Yes	--	Yes	Yes
Protective Put	Yes	--	--	Yes	Bullish	--	--	--	Yes	Yes
Cash Secured Put	Yes	--	Yes	--	Bullish	--	Yes	Yes	--	--
Covered Put	--	Yes	Yes	--	Bearish	--	Yes	--	--	--
Synthetic Long Put	--	Yes	--	Yes	Bearish	Yes	--	--	--	--
Synthetic Long Stock	Yes	--	--	--	Neutral to bullish	Yes	--	--	--	--
Synthetic Short Stock	--	Yes	--	--	Neutral to bearish	Yes	--	--	--	--
Collar	Yes	--	--	--	Bullish	--	--	--	Yes	Yes
Bull Call Spread	Yes	--	--	Yes	N/A	Yes	--	--	--	--
Bear Call Spread	--	Yes	Yes	--	N/A	--	Yes	--	--	--
Bear Put Spread	--	Yes	--	Yes	N/A	Yes	--	--	--	--

The OCC also probably has some other basics like the one they called Strategy Index:

Options Strategies: Index



[H\Y\7A 9\Ug'H \[g'dfYHm\[ccX Options_Basics.pdf](#)
 The CME also had this Strategy Guide.
[CME_Strategy_Guide.pdf](#)



ChartBender Options Knowledge eXchange had a real cool presentation but they are no longer around:



Guest



Class Materials for RD1

« **Reply #1 on:** December 12, 2008, 01:15:36 PM »

The CME and Chartbender links all produce "page missing" error messages.
Can you please update these links?
Thank you,
//Cliff

Ri\$k Doctor

Administrator
Hero Member



Posts: 3247



Class Materials for RD1

« **Reply #2 on:** December 12, 2008, 03:01:31 PM »

Sorry, things change:
ChartBender Options Knowledge eXchange is no longer available:

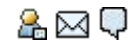
CME Stuff:
[Download CME Basic options PDF here.](#)
[Download CME Strategy Guide PDF here.](#)

garydmoore@bellsouth.net

Newbie



Posts: 3



Class Materials for RD1

« **Reply #3 on:** March 09, 2009, 11:07:51 AM »

Charles:

When you have the time, I have a question, please: Page 18 of your book: "What amount of money is the most one can loose with 10*36 Calls bought at 1.70 and 10*39 Puts bought at 1.90, making a total investment of \$3600 (10x(1.70 + 1.90)x 100 shares)? Why is the answer only \$600?" And on page 19: "What amount of money is the most one can loose with 10*36 Puts bought at .40 and 10*39 Calls bought at .20, making a total investment of \$600 (10x(.4 + .2)x100 shares)?" I don't see how you got the .20 and the .40. That Box tool is hard to understand.

Also, How would one enter this into the (OpenSource)Desector? Short 3 Mar09 50 Straddles, Long 6 May09 50 straddles.

Your course is hard and make me think. Look forward to your answers!
Regards,
Gary Moore

Tinka

Newbie



Posts: 3



Class Materials for RD1

« **Reply #4 on:** March 10, 2009, 08:44:13 AM »

Gary,

Let's see if I can help, before Charles has time to add his comments.

Use Put/Call Parity to obtain the .40 for 36 puts that are out of the money, insted using 36 calls that are in the money - do it this way:

$C + K = U + P$ (this example has no cost of carry or dividends)

so, $1.70 + 36.00 = 37.30 + P$

$P = 37.70 - 37.30 = .40$

Same way let's do this for the 39 calls that are out of the money, instead of using 36 calls that are in the money.

$C + K = U + P$

$C + 39 = 37.30 + 1.90$

$C = 39.20 - 39 = .20$

This way you have regular 36P/39C strangle for .60 and it's the most that you can lose at expiration, instead of having so called "guts" strangle, which had short 3.00 box embedded inside it. That short box is "locked" position, which theoritically is worth 3.00 at expiration and will go away.

Hope this helps, and let's see what Charles can add to it.

Jacek

garydmoore@bellsouth.net

Newbie



Posts: 3



Class Materials for RD1

« **Reply #5 on:** March 11, 2009, 12:27:32 PM »

Jacek,

Thank you very much for your help. You have \$37.30 as the value of "U". May I ask how you got that? I must have missed some steps.

Thanks

Gary

Tinka

Newbie



Posts: 3



Class Materials for RD1

« **Reply #6 on:** March 11, 2009, 01:06:58 PM »

Gary,

Look at Exhibit 1-10 on page 19. It's at the top/middle of it. That's the place where you put the value of U when doing an analysis the way Charles teaches it.

Jacek

garydmoore@bellsouth.net

Newbie



Posts: 3



Class Materials for RD1

« **Reply #7 on:** March 12, 2009, 03:45:01 AM »

Jacek:

Thanks again! I was looking at the 1-9 exhibit and thinking that \$37.50 was the value of U but then you had \$37.30 and I tried to come up with it using the Put/Call Parity but failed. Neither question had the value of U listed so I didn't even get to exhibit 1-10 except a brief look. Thanks Very Much.

Gary

 Author

asetianto

Newbie



Posts: 4



Ri\$ Doctor

Administrator

Hero Member



Posts: 3247



Gut Strangle

« **on:** June 09, 2008, 01:30:49 AM »

I can visually draw hockey-sticks of +70p/+75c but having difficulties in visually draw hockey-sticks of long guts strangle +70c/+75p. Can you help?



Gut Strangle

« **Reply #1 on:** October 19, 2008, 05:18:48 PM »

Please see if this illustration helps you (Thanks to all who chimed in with their explanations):



shielint

Members

Newbie



Posts: 17



Gut Strangle

« **Reply #2 on:** November 03, 2008, 09:49:44 PM »

To be more precisely, I believe the GREEN graph should be raised up to the point that the horizontal GREEN line passes thru the crossover of the red and black lines. (This way it will be more clearly demonstrate that the amount of money lot is not the sum of the put and call premium of a gut straddle as described in the first excercise of the preface of the book.)

avrbhv74

Newbie



Posts: 2



Ri\$ Doctor

Administrator

Hero Member



Posts: 3247



avrbhv74



Beginner's Path

« **on:** October 17, 2008, 06:15:17 AM »

Hi Charles

I started learning about options trading about 2 years ago with Optionetics. I have basic knowledge of many strategies, however I feel that Optionetics has divided very basic stuff over a level of expensive courses. I read your book "Options Trading: The Hidden Reality" and was impressed by your in-depth knowledge of the subject. The first thing I noticed is that you really start off from where other instructors leave.

But Frankly I could not get through even the second chapter of your book. I have bought RD1 and have been trying to understand it and I have committed myself to complete the book in coming one month.

What are your suggestions for a newbie like me? A detailed plan would help me a lot.

Many thanks!

Pradeep



Beginner's Path

« **Reply #1 on:** October 19, 2008, 05:00:58 PM »

It is necessary to get through Chapter 1 (RD1) with a very good understanding so that would be goal Number #1. Stay with that goal and hammer out all lack of understanding. Make sure you understand all the exercises. If you cannot get through Chapter 1 or RD1 I would perhaps say that, I cannot help you.

These recent markets are showing us that "one-trick ponies", will not survive and that a complete understanding of the landscape is vital to any options trading/hedging success. If you cannot get through Chapter 1 or RD1 then you must take your chances on an advisory service, which is not recommended without being able to scrutinize what your hired managers are trying to do for you.

Step 2: Finish the book with or without the assistance of RD2 or the Strategy Intensives. At the end of the day, Options are either your 'Cup of Tea' or they are not.

I hope to help you decide; Yes or No, before spending hard earned money on courses that will not help you if you cannot get into it.



Beginner's Path

« **Reply #2 on:** October 20, 2008, 01:46:14 AM »

Dear Charles

Thanks for laying the path for me. I am glad that I chose you to answer this question. I am going to make sure that I very well understand chapter 1 and all these materials to clarify other concepts mentioned in your book.

You really start where other so-called guru's leave off.

I feel I am in good company.

Thanks again Charles!

Best wishes

Pradeep

 Author

Ri\$k Doctor

Administrator

Hero Member



Posts: 3247



Ri\$k Doctor

Administrator

Hero Member



Posts: 3247



Homework 1

« on: June 09, 2005, 10:47:18 AM »

You are long 1000 Underlying shares of EBAY going for 93.40 (\$93,400). The purchase of 10 October 90 Puts can provide a floor, limiting your downside risk.

If you buy 10 Puts for .80 each (each \$80 for a total of \$800);

1. What will you then want to happen to the Underlying stock?
2. What will be the most you can lose between now and expiration?
3. What is your break-even point(s) in terms of the Underlying price?
4. What is the simplest trade you can make to stop the exposure (locking in the gain or the loss, whatever it may be)?



Homework 1

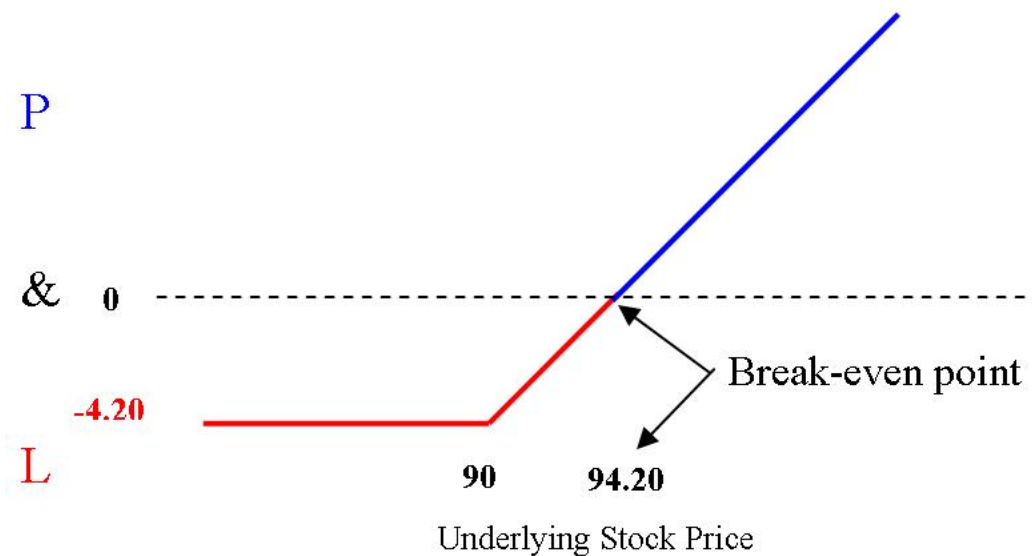
« Reply #1 on: August 15, 2005, 08:23:51 AM »

You are long 1000 Underlying shares of EBAY going for 93.40 (\$93,400). The purchase of 10 October 90 Puts can provide a floor, limiting your downside risk.

If you buy 10 Puts for .80 each (each \$80 for a total of \$800);

1. What will you then want to happen to the Underlying stock?

You want it to go up because this is synthetically long 10*90 Calls for 4.20 each (\$4200).



2. What will be the most you can lose between now and expiration?

\$4200 just like owning 10 real Calls for 4.20 each. (that is .80 for each Put becoming worthless while the stock drifts lower from 93.40 to 90 losing the 3.40.

3. What is your break-even point(s) in terms of the Underlying price?

94.20 because the stock makes back the .80 that the Put will lose by expiration.

4. What is the simplest trade you can make to stop the exposure (locking in the gain or the loss, whatever it may be)?

Sell the real call to complete the conversion. (you may be wondering what then? But that is for a later discussion).

Ri\$ Doctor

Administrator

Hero Member



Posts: 3247



Legging

« on: May 18, 2005, 03:05:38 PM »

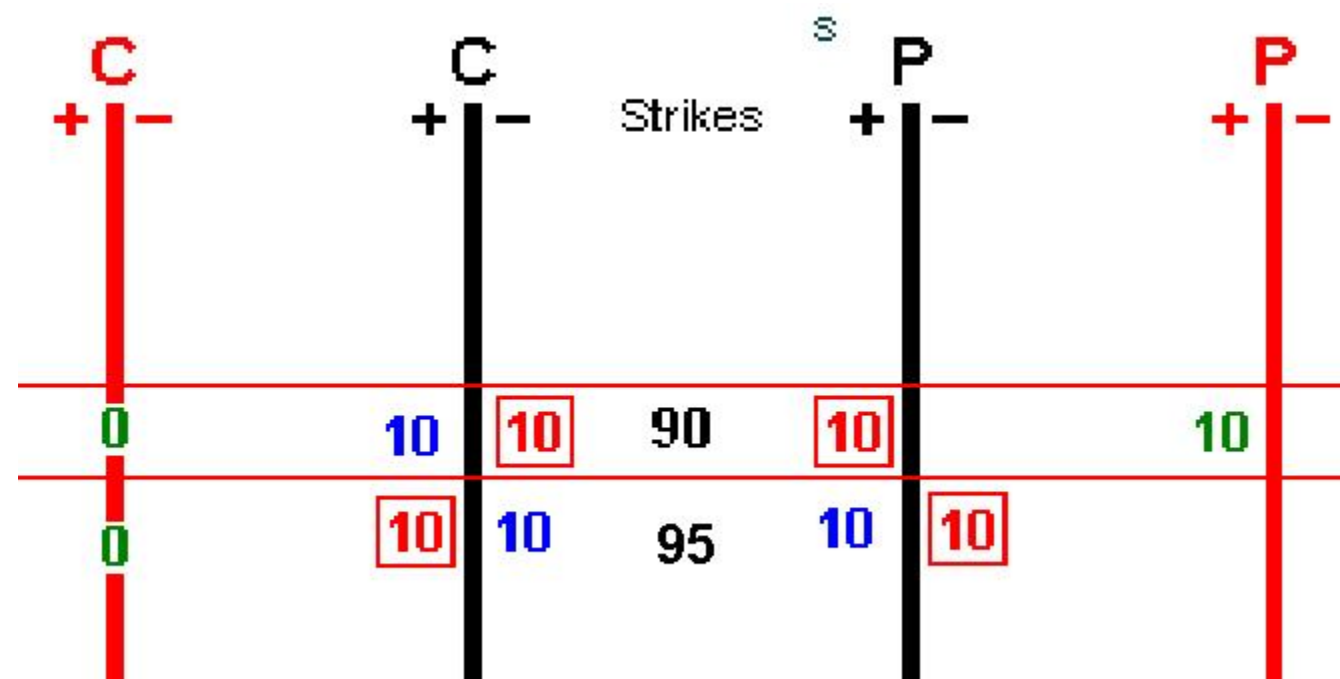
Full Article on Legging can be downloaded at:

[Legging vs Spreading](#)

The question at the end of the May 18th RD1 Class was if you were long the 90/95 call vertical, were no longer bullish and perhaps even bearish and wanted out how would you leg out of the spread if you could not get your spread to be taken at a reasonable value (the mid value is 3.80 but none will even fill you at 3.70?



You could not sell out the 90s first because of margin and naked exposure and you should not buy back the 95s because you are not bullish just in case you get caught naked between spread legs. The answer is; Buy the 95 put. What? Puts? Yes Puts: You would then have the "3 Legged Box" which is synthetically long the 90 puts that are only a risk of 1.00 from this point forward.



Any Questions?