optionPLANET

Practical Position Management

Disclaimer

In order to simplify the computations, commissions have <u>not</u> been included in the examples used in these materials. Commissions will impact the outcome of the stock and options transactions and should be considered.

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Capital Allocation

A. How much of my investment capital should I use for my trading account?

-Approximately 25% - 40% depending on your individual risk tolerance

B. How much of my trading capital should I allocate for each trade?

-Approximately 2% - 5% per trade depending on your account size. Your dollar risk per trade should be consistent and you should adjust trade size to reflect risk, not contracts

Using the Greeks to Manage Positions

A. Definitions and Practical Applications

1. Delta: How much money do I make or lose if the stock price changes?

2. Gamma: Understanding how quickly the position delta can change.

3. Theta: How much money do I make or lose as one day passes?

4. Vega: How much money do I make or lose if volatility changes?

B. What's a simple and practical way to use delta?

1.How many shares of stock would you be comfortable holding at any one time? Make sure that your position delta doesn't exceed that figure.

2. Understand that option deltas are not constant. They change over time, with changes in volatility and stock price.

C. Understanding how the Greeks relate to each other.

1. Graphic representations of how Delta, Gamma, Theta, and Vega change over time?

2. Special considerations to what happens to the Greeks during expiration week?

3. Is the position generating enough Theta given the risk you are taking?

4. What happens to the delta of in-the-money and out-of-the-money options as volatility changes (i.e. how does my directional risk change as volatility changes?)

Position Management, Delta Adjustments and Trade Allocation Techniques

A. Adjusting multiple positions in one underlying.

1. Adjusting positions based on time to expiration and relative stock price.

2. Using OTM credit spreads to hedge delta risk

3. Using opening trades to rebalance positions

B. Managing risk across multiple products.

1. What is beta-weighting?

2. Choosing an appropriate index for beta weighting

3. Beta adjustments using Delta analysis

4. Using e-minis to adjust positions

5. Hidden benefits from beta-weighted adjustments

C. Closing and adjusting positions.

Q: When would I close instead of adjust?

A: Iron condors and verticals: when the current spread price is approximately 10% of the width of the strikes. Calendars and diagonals: when the near month options no longer have any premium or are trading for approximately 10% of the width of the strikes (of that product).

Specific examples and criteria for rolling and closing in both equity and index products.

Tricks of the 'Trade': Avoiding the Most Common Mistakes

A. Be consistent and disciplined in your trading approach and size.

B.Leave your ego out of this. Options don't care.

C.Define your risk because it will eliminate emotional attachments to bad positions.

Implementation/Software Demo

A. Executing and pricing various spreads using TOS trading platform

B. Using the position management tools on the TOS platform

C. Using the probability analysis tools on the TOS platform

D. Wrap-up…Q&A