Contents

Acknowledgments —— VII

Foreword —— IX

Preface —— XIX

Introduction —— 1

Part 1: **Professional Lessons Every Trader Needs to Know**

Chapter 1
Trading in Options —— 7
The One-Man Insurance Company (TOMIC) —— **8**
Build an Infrastructure —— **9**
Build a Trading Plan —— **9**
Select Trades Based on Articulated Criteria —— **10**
Manage Risks —— **11**
Learn All the Essential Elements of Trading —— **12**

Chapter 2
Risk Management —— 14
The Option Pricing Model —— **14**
The Options Greeks —— **15**
Delta —— **16**
Change in Underlying Price —— **17**
Change in Strike Price —— **18**
Time to Expiration —— **18**
Volatility —— **19**
Gamma —— **20**
Price of the Underlying —— **22**
Strike Price —— **22**
Time to Expiration —— **23**
Volatility —— **24**
Vega —— **27**
Price of the Underlying —— **28**
Strike Price —— **28**
Time to Expiration —— **29**
Volatility —— **30**

Bibliografische Informationen
https://d-nb.info/1208860607

digitalisiert durch DEUTSCHE NATIONAL BIBLIOTHEK

Theta — 31
Price of the Underlying — 31
Strike Price — 32
Time to Expiration — 34

Chapter 3
Market Makers, Risk, and the Individual Trader — 36
How Market Makers Make Money — 36
Skew — 39
Term Structure — 40
Market Maker Size — 41
Market Maker Global Risk — 42

Chapter 4
Volatility — 44
Realized Volatility — 44
Zone 1 Ultra-low Volatility — 44
Zone 2 — 46
Zone 3 — 48
Zone 4 — 50
Implied Volatility — 52
Zone 1 — 52
Zone 2 — 53
Zone 3 — 54
Zone 4 — 55
Volatility in 2020 — 55

Chapter 5
What Is Edge? — 59
Edge — 59
10-Day HV — 60
20-Day HV — 61
60-Day HV — 61
Review the IV of the Product — 62
IV30 — 63
Term Structure — 64
Skew — 65
Know the *Zone* of the Market — 67
Select the Trade — 67

Chapter 6
Locking in Edge — 70
The Retail Trader — **71**
Establish the Option You *Want* to Trade — **71**
Establish the Offsetting Contract — **72**
The Hard and Soft Side of a Trade — **72**
Execute, Manage, Exit — **74**

Part 2: **Using Spreads**

Chapter 7
A Review of Basic Spreads — 77
The Vertical Call Spread — **77**
The Put Spread — **78**
The Straddle — **82**
Long Straddle — **82**
Short Straddle — **83**
The Strangle — **85**
Long Strangle — **85**
Short Strangle — **86**

Chapter 8
A Closer Look at Advanced Spreads — 88
The Iron Butterfly — **88**
The Short Iron Butterfly — **88**
The Long Iron Butterfly — **92**
Standard Butterfly — **93**
The Iron Condor — **95**
The Short Iron Condor — **96**
The Calendar Spread — **98**
The Long Calendar — **99**
The Short Calendar — **100**
Front and Back Spreads — **101**
Back Spreads — **101**
Front Spreads — **102**

Chapter 9
Adding Edge to Spreads — 104
Credit/Debit Spreads — **104**
Volatility — **106**
Skew — **108**
Management — **110**
A Few Words on Adjusting — **112**

Chapter 10
Butterflies and Condors — 113
The Butterfly — **113**
Trading a Butterfly — **114**
Targeting Profit in a Butterfly — **119**
Condors — **119**
Strangle — **119**
IV and HV — **120**
Skew — **122**
Set Up and Management — **124**

Chapter 11
The Front Spread — 125
What Is a Front Spread? — **125**
Creating a Front Spread — **126**
The Broken Wing Butterfly — **130**
Trade Management — **131**
Beginning of Front Spread in TSLA — **132**
Target Profit — **133**
Broken Wing Butterfly Variation — **134**

Chapter 12
Calendar Spreads — 136
Creating a Calendar — **137**
Evaluate Overall Implied Volatility — **138**
Evaluate Term Structure — **139**
Evaluate Event Risk — **141**
Evaluate Realized Volatility — **141**
Choose the Right Strikes — **142**
Execute the Trade — **143**
Manage the Trade — **145**
Exit — **145**

Part 3: **Global Risk and Volatility**

Chapter 13
How a Market Maker Trades — 149
Market Making — **149**
The Trader — **152**

Chapter 14
Portfolio Greeks — 155
Delta — **155**
Gamma — **156**
Theta and Vega — **156**
Theta — **156**
Vega — **157**
Managing a Book — **162**

Chapter 15
Trading Volatility — 163
The VIX — **163**
The Weekend Effect — **165**
VIX Futures — **166**
VIX Options — **169**

Chapter 16
Trading VIX ETPs — 175
VIX ETPs and the Issue of Contango — **175**
Inverse Volatility ETPs — **177**
Trading Volatility ETPs — **179**

Part 4: **Appendix**

Appendix A
Important Terms — 185

List of Figures — 201

List of Tables — 205

About the Authors — 207

Index — 209