

## **WEEKLY OPTIONS TRADING REPORT - Paul Forchione, CTA**

Paul offers option traders of all levels instructional webinars, seminars, books, CDs, and full service as a Commodity Trading Advisor and Commodity Broker. The current issue of the Weekly Options Trading Report begins on page 2.

### **Webinar - How I Use OptionVue**

Sunday, January 24th, 2010 - 3:00 p.m. to 4:15 p.m. to PST (*EST - 6:00 p.m. to 7:15 p.m.*)

How I use OptionVue 6 --- I've been using OptionVue for 15 years (since 1994) and consider it to be my most indispensable tool for analyzing the options markets.

All serious options traders need to use a robust options software program to understand if the options they're looking at are under- or over-valued and to see the Graphic Analysis for any options trades they're contemplating. Even more importantly, a software program must give them the ability to test the margin impact of adjustment alternatives and to see the option Greeks for their spread positions.

Join me on Sunday, January 24, at 3:00 p.m. PT, and I'll demonstrate exactly how I use the OptionVue 6 software to find, analyze, and adjust option spread positions. I'll show you how I view Volatility Charts, input trades into Matrix, and make delta and vega adjustments to positions. **This webinar is a "must" for serious option traders! [Sign Up Here!](#)**

### **Paul's New e-book!**

#### **Tying Up The Loose Ends - Answers to Your Questions about Options**

In this 112-page e-book, Paul gives you the unique opportunity to "eavesdrop" on the advice and answers he's given to options traders over the last 15 years. This is your chance to listen in on excerpts of dialogues between Paul and his options trading students and clients. Paul illustrates many of his answers and explanations with clear graphics (OptionVue screen shots), making it easier to zero in on the crucial information and ensure that you get that "trading edge." [To learn more, click here.](#)

### **Get the third and fourth CDs in Paul's Strategy Series**

#### **Delta Neutral Premium Buying Strategies and Selling Strategies**

Does market volatility give you knots in your stomach? Are you confused by technical indicators and just plain tired of being on the wrong side of the market? If you answered "yes" to any of these questions, then you'll want to get Paul's latest CDs.

Paul teaches you how to use options spreads that benefit from market turbulence. Gone will be the days when you fret over the market . . . because the greater the volatility, the better. Of course, there are no free lunches, so he also teaches you how to balance negative time decay versus market movement and changes in implied volatility.

[To Order Click Here.](#)



# **WEEKLY OPTIONS TRADING REPORT --- Tuesday, January 12, 2010**

**\*\*\* Next week's issue will be available on Wednesday, Jan 20 because Monday, Jan 18 is a holiday \*\*\***

**Questions or Comments?** Please call **800-926-0926 ext. 254**

**Each recommended position ---**

**(A) Is identified by type of position**

**Speculative Directional** – options position designed to take advantage of a trend or seasonal expectation.

**Speculative Implied Volatility** – options position designed to take advantage of high or low implied volatility.

**Speculative Statistical Volatility** – options position designed to take advantage of high or low statistical volatility.

**Systematic** – options positions that generally begin delta neutral and which evolve over time as adjustments are made in response to moves in the underlying commodity and to changes in implied volatility.

**(B) Has a trading plan**

The trading plan for **Speculative** Positions will state when to close positions. The exit will be triggered when the underlying commodity moves to a specified level, when the position earns or loses a predetermined amount, or when a specific date has been reached.

The trading plan for **Systematic** Positions, on the other hand, will specify adjustment points. Adjustments will be made to reduce exposure to market direction, to changes in implied volatility, or to negative time decay. An adjustment may close some options and add new options in their place, or an adjustment may leave existing positions in place and add new options to them.

**(C) Shows current Greeks and projected performance curves**

The current Greeks show how a position will respond to rallies and declines (delta and gamma), to expanding and contracting implied volatility (vega), and to the passage of time (theta). OptionVue's Graphic Analysis shows projected results over a range of underlying prices and over the passage of time.

**(D) Shows a Volatility Chart with a Price Chart superimposed**

The Volatility Chart shows how implied and statistical volatility have fluctuated in the past and it shows their percentile ranking over the past 6 years. The Price Chart shows how the underlying commodity has behaved in the past. It's a chart for a continuous contract.

**In this issue**

- 1. E-Mini S&P 500 (ES) – Feb Put Butterfly – Speculative Directional – bearish**
- 2. Gold (GC) – Apr Broken Wing Call Butterfly – Speculative Directional -- bullish**
- 3. Crude Oil (CL) – Mar Put Ratio spread – Speculative Directional -- bearish**

**Weekly Option Implied Volatility Survey --- Data through last week's close.**

**FUTURES AND OPTIONS TRADING CAN INVOLVE SUBSTANTIAL FINANCIAL RISK**

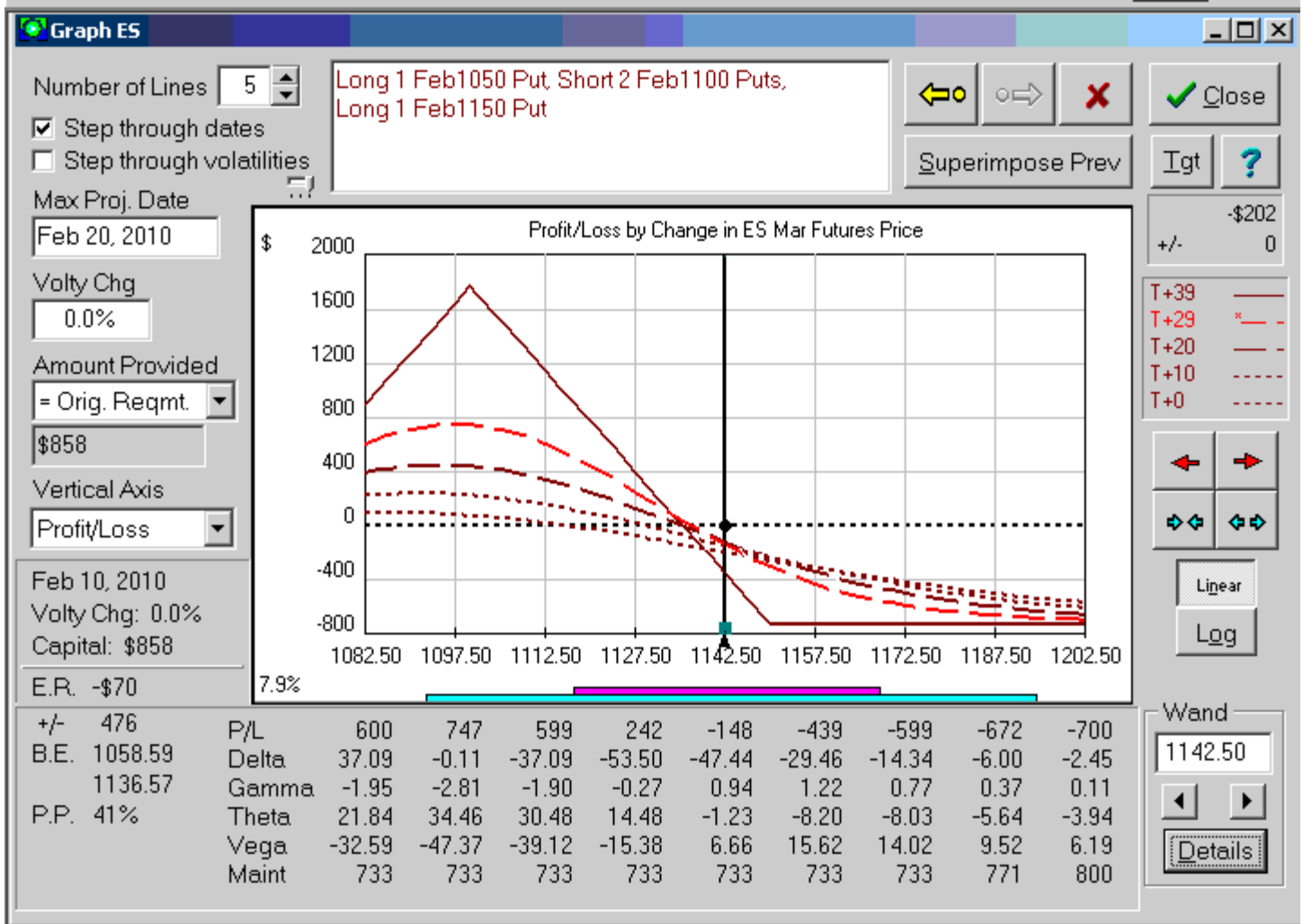
This publication is intended solely for information purposes and is not to be construed, under any circumstances, by implication or otherwise, as an offer to sell or a solicitation to buy or sell or trade in any commodities or securities herein named. Information is obtained from sources believed to be reliable, but is in no way guaranteed. No guarantee of any kind is implied or possible where projections of future conditions are attempted. In no event should the content of this market letter be construed as an express or implied promise, guarantee or implication by or from MF Global Inc, or any of its officers, directors, employees, affiliates or other agents that you will profit or that losses can or will be limited in any manner whatsoever. Past results are no indication of future performance. All investments are subject to risk, which should be considered prior to making investment decisions. Privacy policy available upon request.

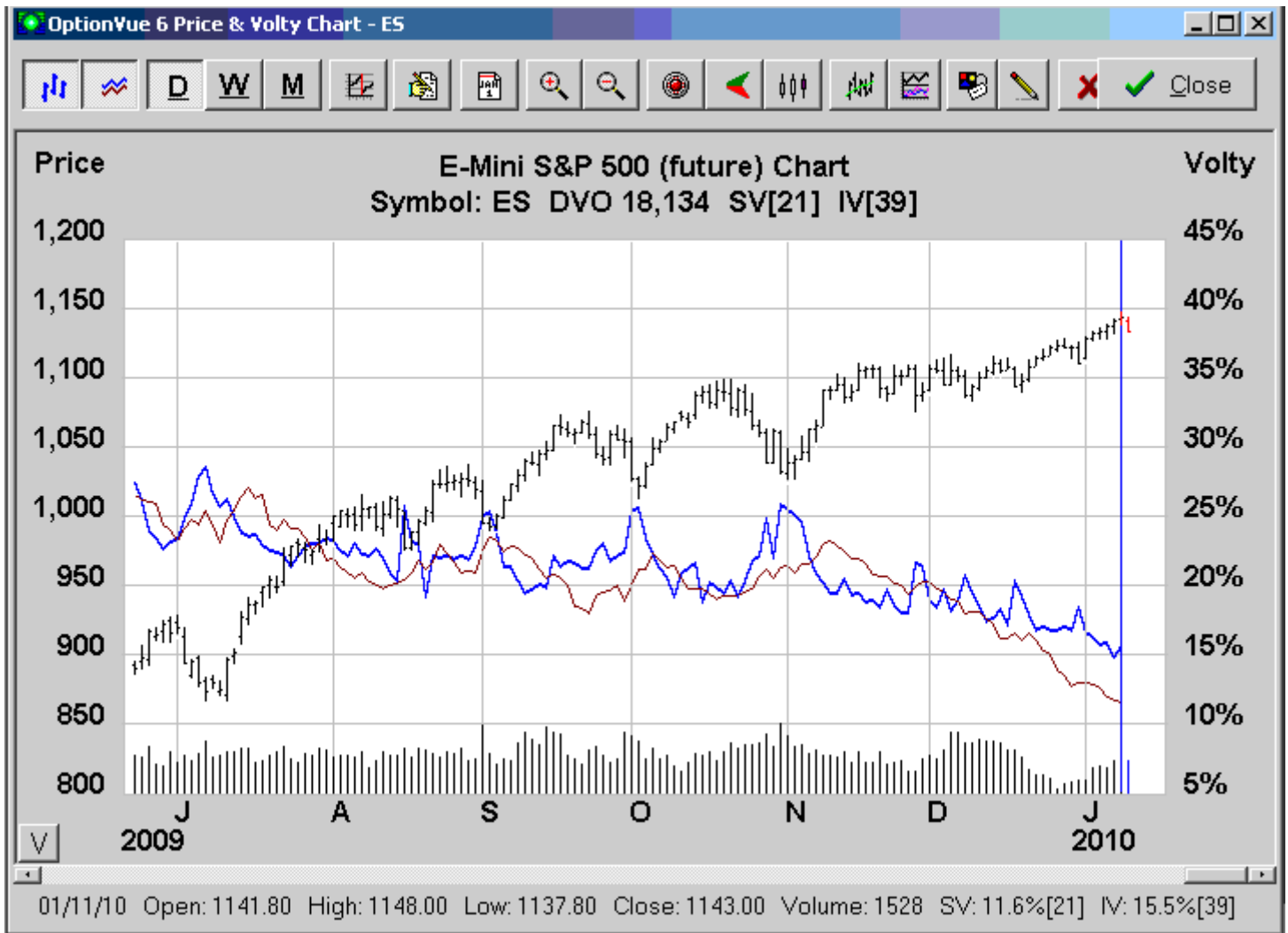
**The weekly option implied volatility survey can be found on the last page**

**1. E-Mini S&P 500 (ES) – Feb Put Butterfly**

Position / Closing Price @ 1/11	Entry Cost	Time	Comments/ Trading Plan
<p>Buy 1 Feb 1150 put @ 2800                      Sell 2 Feb 1100 puts @ 1150                      Buy 1 Feb 1050 put @ 485</p> <p>1 point = \$0.50</p> <p>Mar ES @ 1142.50                      Note: Feb ES options are tied to Mar ES futures</p> <p><b>Greeks:</b>                      Delta (16)                      Gamma +0.01                      Theta +\$4                      Vega \$(11)</p> <p><b>Margin:</b>                      \$ 858</p>	<p>Approx.                      985 or less                      points debit</p> <p>\$ 492.50</p>	<p><b>Feb                      options                      expire                      on 2/19                      in 38                      days</b></p>	<p>Equities have been moving higher for months.</p> <p>This Feb put butterfly assumes that over the next month the Mar ES contract will reverse to the downside.</p> <p>This is a statistical volatility trade with a bearish bias.</p> <p><b>Trading Plan/Suggested Risk:</b></p> <p>Establish the spread for a debit of approximately 985 points with an objective of closing the spread when it widens to a debit of 2660 points (1675 points better).</p> <p>This objective could be potentially achievable in 29 days (by Feb 10) provided the Mar ES futures contract declines below 1112.50 (30.00 pts lower) but doesn't decline below 1082.50 (60.00 pts lower).</p> <p>Close the spread if the Mar US contract rallies to 1157.50 (15.00 pts higher).</p> <p>In any event, close the spread no later than Feb 10 in 29 days.</p>

Entry Cost is the recommended option premium paid (debit) to enter a trade. If premium is collected (credit) it will be designated in brackets ( ). Cost is not necessarily the margin required to hold the trade. The margin includes \$60 / RT per option. Projected results are estimates. **ACTUAL PROFITS MAY BE LESS AND ACTUAL LOSSES MAY BE MORE. PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. TRADES ARE BASED ON THE PREVIOUS DAY'S SETTLEMENT PRICES. FUTURES MARKETS MOVE QUICKLY SO EVALUATE THE MARKET BEFORE ENTRY.**

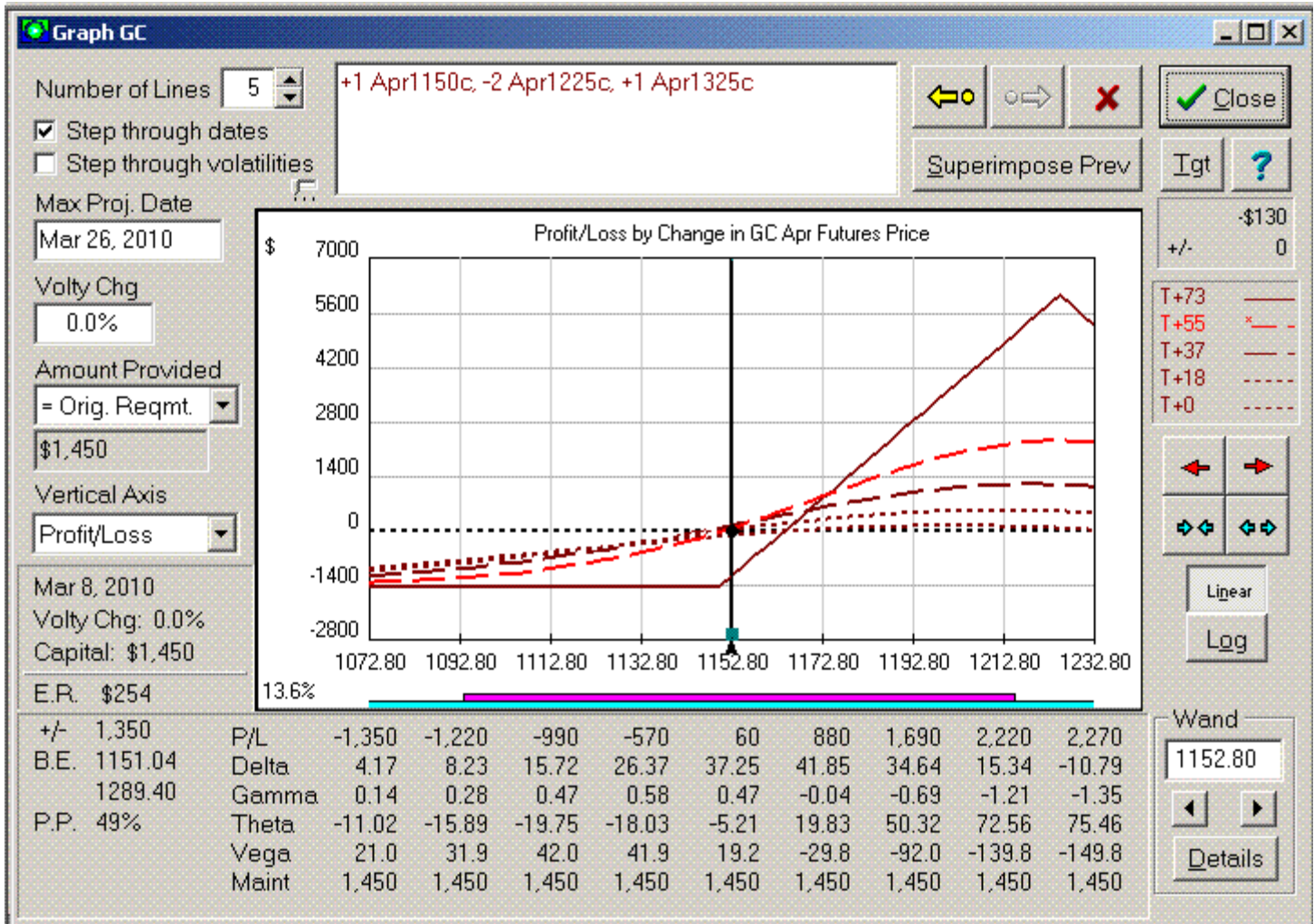


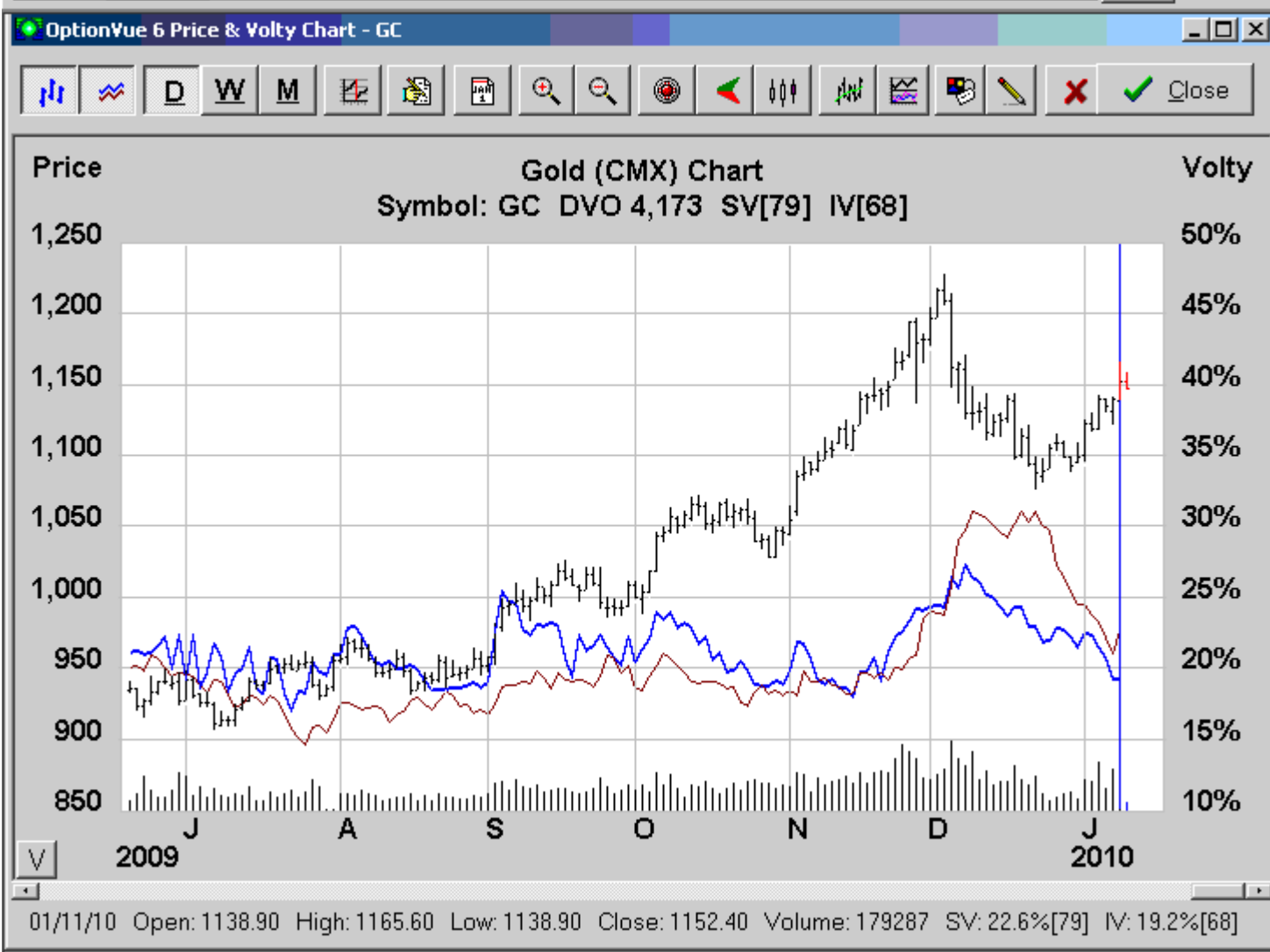


**2. Gold (GC) – Apr Broken Wing Call Butterfly**

Position / Closing Price @ 1/11	Entry Cost	Time	Comments/ Trading Plan
<p>Buy 1 Apr 1150 call @ 4430                      Sell 2 Apr 1225 calls @ 1880                      Buy 1 Apr 1325 call @ 540</p> <p>1 point = \$1</p> <p>Apr GC @ 1152.80</p> <p><b>Greeks:</b>                      Delta +9                      Gamma (0.12)                      Theta +\$9                      Vega \$49</p> <p><b>Margin:</b>                      \$ 1,450</p>	<p>Approx                      1210 or less                      points debit</p> <p>\$ 1,210</p>	<p><b>Apr                      options                      expire                      on 3/25                      in 72                      days</b></p>	<p>Gold has been rallying as implied volatility (IV) has been declining. This is unusual since Gold IV generally tends to rise when Gold rallies.</p> <p>This Apr broken wing butterfly assumes Gold will continue to rally over the next couple of months.</p> <p>It's also structured to benefit if IV stays at a relatively low level since the vega factor in 55 days that's shown on the Graphic Analysis is negative.</p> <p><b>Trading Plan/Suggested Risk:</b></p> <p>Establish the spread for a debit of approximately 1210 points with an objective of closing the spread when it widens to a debit of 2330 points (1120 points better).</p> <p>This objective could be potentially achievable in 55 days (by Mar 8) provided the April GC futures contract rallies at least 20.00 points to 1172.80.</p> <p>Sell 1 Apr 1275 call (to open) if the Apr GC contract declines 20.00 to 1132.80.</p> <p>In any event, close the spread no later than Mar 8 in 55 days.</p>

Entry Cost is the recommended option premium paid (debit) to enter a trade. If premium is collected (credit) it will be designated in brackets ( ). Cost is not necessarily the margin required to hold the trade. The margin includes \$60 / RT per option. Projected results are estimates. **ACTUAL PROFITS MAY BE LESS AND ACTUAL LOSSES MAY BE MORE. PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. TRADES ARE BASED ON THE PREVIOUS DAY'S SETTLEMENT PRICES. FUTURES MARKETS MOVE QUICKLY SO EVALUATE THE MARKET BEFORE ENTRY.**

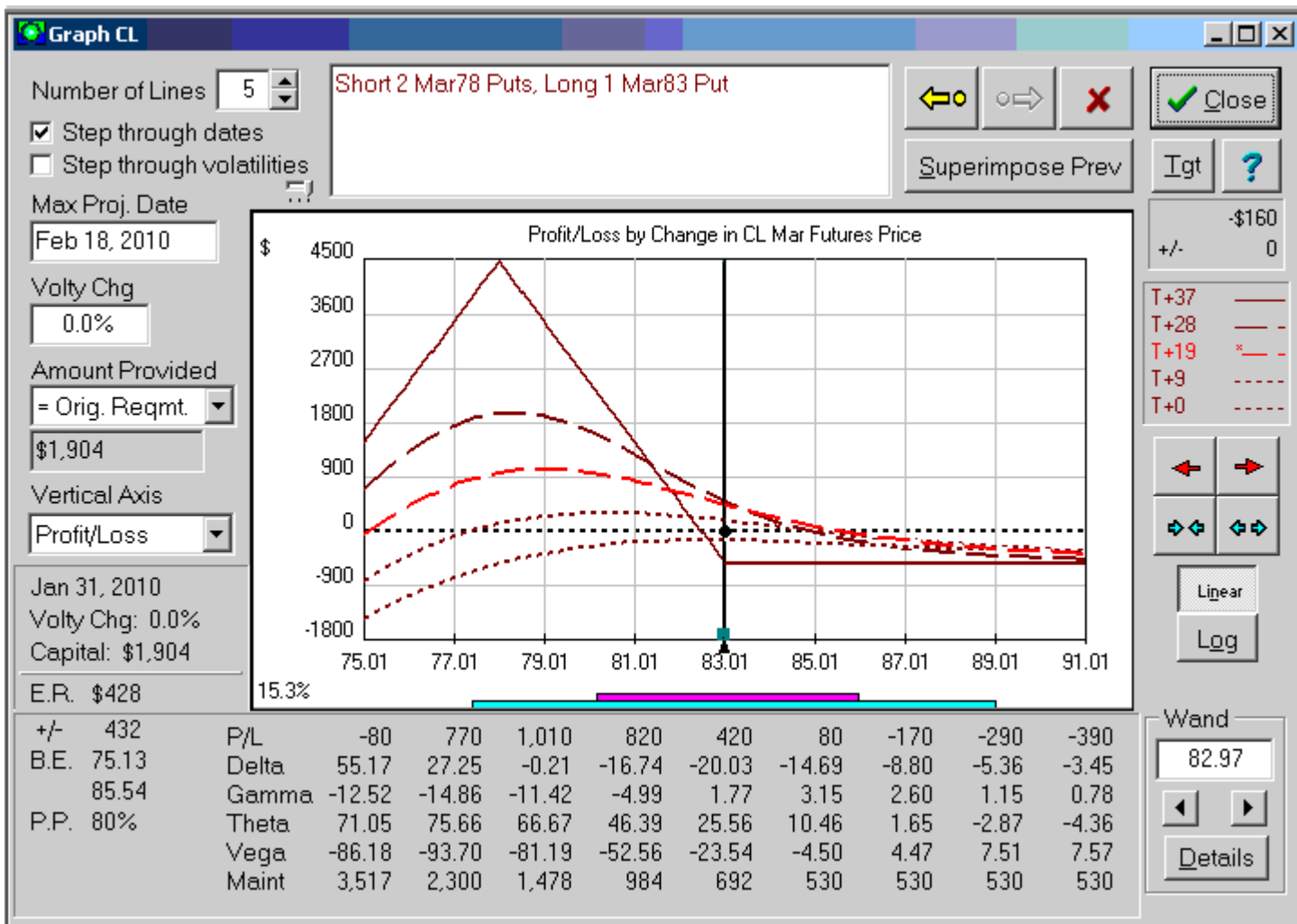


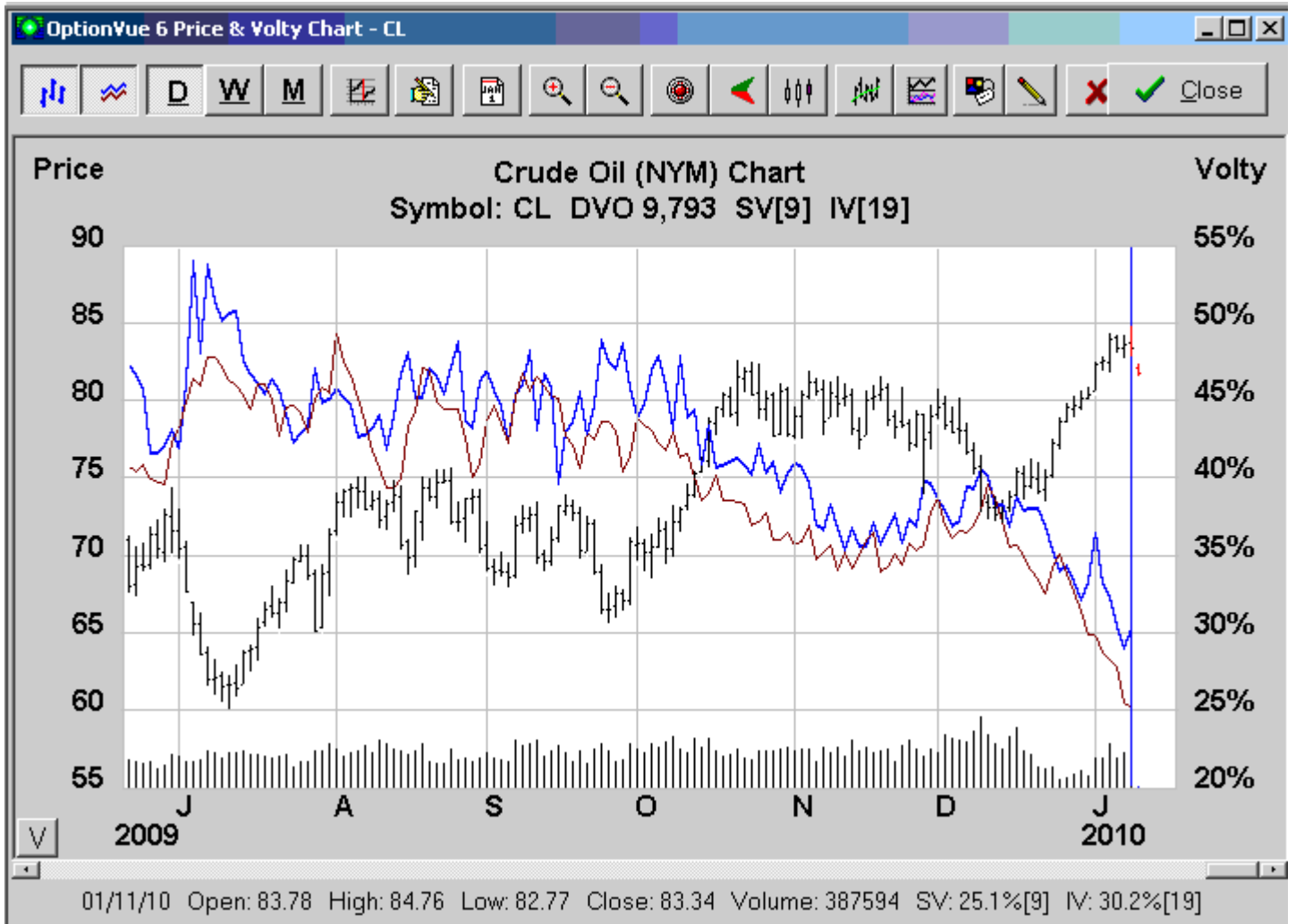


### 3. Crude Oil (CL) – Mar Put Ratio spread

Position / Closing Price @ 1/11	Entry Cost	Time	Comments/ Trading Plan
<p><b>Buy 1 Mar 83 put @ 331</b>  <b>Sell 2 Mar 78 puts @ 148</b></p> <p>1 point = \$10</p> <p>Mar CL @ 83.01</p> <p><b>Greeks:</b>  Delta (1)  Gamma (2)  Theta +\$33  Vega \$(67)</p> <p><b>Margin:</b>  \$ 1,904</p>	<p>Approx  35 or less  points debit</p> <p>\$ 350</p>	<p><b>Mar  options  expire  on 2/17  in 36  days</b></p>	<p>Mar Crude Oil has rallied from a low at 72.45 on Dec 14 to a high at 84.45 on Jan 11.</p> <p>This put ratio spread is a very short term position that's structured to benefit over the next 19 days if Mar CL declines.</p> <p>Implied volatility (IV) has been declining in Crude and this spread has a small negative vega factor meaning it benefits if IV continues to decline.</p> <p><b>Trading Plan/Suggested Risk:</b></p> <p>Establish the spread for a debit of approximately 35 points with an objective of closing the spread when it widens to a debit of 135 points (100 points better).</p> <p>This objective could be potentially achievable in 19 days (by Jan 31) provided the Mar CL futures contract declines 2.00 points to 81.01 but doesn't decline below 77.21 (5.80 point lower).</p> <p>Close the spread for a loss if the Mar CL contract quickly declines to 78.00 or if it rallies to 87.01 (4.00 pts higher).</p> <p>In any event, close the spread no later than Jan 31 in 19 days.</p>

Entry Cost is the recommended option premium paid (debit) to enter a trade. If premium is collected (credit) it will be designated in brackets ( ). Cost is not necessarily the margin required to hold the trade. The margin includes \$60 / RT per option. Projected results are estimates. **ACTUAL PROFITS MAY BE LESS AND ACTUAL LOSSES MAY BE MORE. PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RESULTS. TRADES ARE BASED ON THE PREVIOUS DAY'S SETTLEMENT PRICES. FUTURES MARKETS MOVE QUICKLY SO EVALUATE THE MARKET BEFORE ENTRY.**





# WEEKLY OPTION IMPLIED VOLATILITY SURVEY ----- DATA through Jan 8, 2010

UNDERLYING MARKET	Symbol	Jan 8	Dec 31	Nov 27	Oct 30	Sep 25	Aug 28	(UP TO) 6YR I.V. RANGE	1.5-YEAR I.V. RANGE	6-YEAR % RANK	1.5 yr % RANK
<b>Stocks,Int Rates</b>											
S&P 500	SP	16.0	17.2	18.9	23.3	21.7	19.8	8.5 - 69.3	8.8 - 69.3	58	1
DOW JONES	DJ	16.4	17.5	16.2	20.6	20.2	20.5	8.3 - 66.5	8.3 - 66.5	60	3
EURODOLLAR	ED	111.4	106.3	110.7	112.7	112.7	99.2	7.7 - 168.7	7.7 - 168.7	98	91
TEN-YEAR Notes	TY	6.8	7.0	6.2	7.7	7.6	8.3	3.5 - 9.4	3.5 - 9.4	58	12
US 30-YR Bonds	US	11.4	11.1	11.7	13.0	13.0	13.2	5.2 - 21.7	5.2 - 21.7	73	19
<b>CURRENCIES</b>											
AUSTRALIAN \$	AD	13.0	13.0	14.5	16.0	14.1	14.9	6.2 - 46.7	6.2 - 46.7	66	1
BRITISH POUND	BP	12.1	11.2	11.7	13.1	11.4	12.0	4.9 - 29.5	4.9 - 29.5	82	28
CANADIAN \$	CD	12.0	11.5	13.8	15.6	13.7	13.7	5.8 - 26.9	5.8 - 26.9	72	6
EURO Currency	EC	10.7	10.4	10.5	10.7	10.2	10.4	4.7 - 28.7	4.7 - 28.7	72	22
JAPANESE YEN	JY	13.3	13.4	11.6	13.4	13.3	13.2	6.3 - 34.4	6.3 - 34.4	75	21
SWISS FRANC	SF	10.4	10.4	11.0	11.4	10.6	10.5	5.6 - 24.3	5.6 - 24.3	49	3
<b>GRAINS</b>											
CORN	C	33.6	33.3	33.6	39.5	34.1	35.6	15.6 - 50.2	25.3 - 50.2	58	5
WHEAT	W	38.4	40.0	37.6	38.4	29.9	33.6	20.1 - 61.1	29.1 - 61.1	74	33
SOYBEANS	S	30.0	30.2	29.2	29.8	28.3	35.9	16.4 - 50.0	20.0 - 50.0	61	15
SOYBEAN MEAL	SM	26.9	26.0	29.2	30.4	30.0	31.0	17.0 - 46.3	22.6 - 46.3	39	3
SOYBEAN OIL	BO	25.5	24.8	28.4	29.8	26.1	29.1	16.9 - 47.8	17.3 - 47.8	39	4
OATS	O	29.5	29.4	29.6	40.3	33.2	35.4	17.3 - 48.8	17.3 - 48.8	45	22
ROUGH RICE	RR/NR	24.7	25.8	24.7	27.8	22.4	24.4	12.7 - 47.0	12.7 - 47.0	45	18
<b>FOODS, FIBER</b>											
COFFEE	KC	32.0	30.9	31.5	31.8	32.3	29.7	23.2 - 62.5	23.2 - 62.5	27	16
COCOA	CO/CC	38.5	37.9	38.5	43.2	40.2	40.2	20.6 - 53.5	20.6 - 53.5	75	12
SUGAR	SB	52.0	48.5	42.9	48.1	47.0	47.7	18.6 - 52.0	18.6 - 52.0	99	99
ORANGE JUICE	OJ/JO	52.3	47.2	39.1	43.0	53.1	46.1	17.7 - 55.8	18.7 - 55.8	99	98
COTTON	CT	26.1	27.0	28.4	29.7	27.8	31.6	16.4 - 47.2	16.4 - 47.2	35	1
LUMBER	LB	28.8	29.5	29.4	28.6	34.8	37.2	18.6 - 53.5	21.2 - 53.5	56	33
<b>METALS</b>											
COPPER	HG	31.7	35.4	41.6	93.1	253.8	254.5	17.1 - 349	25.1 - 349	46	5
GOLD	GC	20.9	22.1	23.1	18.8	21.8	18.7	10.8 - 48.7	18.7 - 48.7	60	15
SILVER	SI	32.4	32.4	36.2	35.2	38.2	34.9	16.9 - 75.2	19.0 - 75.2	42	3
<b>ENERGY</b>											
CRUDE OIL	CL	31.9	33.0	37.4	40.6	45.9	45.6	24.8 - 99.9	24.8 - 99.9	35	1
GASOLINE	RB	n/a	n/a	n/a	n/a	n/a	n/a	26.2 - 69.9	29.3 - 62.6	n/a	n/a
HEATING OIL	HO	33.3	33.5	38.0	40.6	45.8	47.9	25.9 - 73.6	25.9 - 73.6	35	1
NATURAL GAS	NG	56.3	55.9	54.2	54.0	67.8	79.5	30.0 - 98.1	33.6 - 91.4	53	27
<b>MEATS</b>											
LIVE CATTLE	LC	14.9	14.6	12.6	14.6	13.2	14.6	11.6 - 37.9	11.6 - 37.9	32	28
FEEDER CATTLE	FC	12.0	12.0	13.0	12.6	12.6	13.0	9.0 - 35.0	12.0 - 35.0	18	1
LEAN HOGS	LH	25.2	25.7	24.3	26.1	39.9	44.6	17.5 - 48.5	17.5 - 48.5	69	36

Data is from **OptionVue**, using weekly option I.V. averages. **To contact OptionVue, call (800-733-6610).**

**OPTION MARKET COMMENTS** - Evaluated using computer and subjective analysis. In general, when volatility is low, option purchases are attractive; when high, option-selling strategies are appropriate.

Implied option volatility, statistical market volatility, and liquidity are important considerations.

<b>LOW option implied volatility</b>	<b>HIGH option implied volatility</b>	<b>VOLATILITY NOTES</b>
Consider for option buying strategies (option purchases, ratio backspreads long straddles or long strangles, and calendar spreads)	Consider for option selling strategies (option sales, ratio spreads, and reverse calendar spreads)	(Comments and observations).
SP, DJ, AD, CD, SF, C, SM, BO, CT, HG, SI, CL, HO, and FC	ED, SB and OJ	Implied volatility is very low in many markets.