

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 26, 2010

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

This issue presents three (3) different ways of trading the Sugar market

1. **Sugar (SB) – Apr / May Diagonal Calendar Call spread – Speculative Directional – bullish**
2. **Sugar (SB) – May Broken Wing Iron Condor – Speculative Statistical Volatility -- neutral**
3. **Sugar (SB) – Mar / May Call Combination spread – Speculative Directional -- bullish**

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

FUTURES AND OPTIONS TRADING CAN INVOLVE SUBSTANTIAL FINANCIAL RISK

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

1. Sugar (SB) – Apr / May Diagonal Calendar Call spread

Position / Closing Price @ 1/25	Entry Cost	Time	Comments/ Trading Plan
<p>Sell 1 Apr 30 call @ 174 Buy 1 May 29 call @ 270</p> <p>1 point = \$11.20</p> <p>May SB @ 28.50 Note: Apr Sugar options are tied to May Sugar futures</p> <p>Greeks: Delta +8 Gamma (0.77) Theta +\$6 Vega +\$13</p> <p>Margin: \$ 1,195</p>	<p>Approx. 96 or less points debit</p> <p>\$ 1,075.20</p>	<p>Apr options expire on 3/15 in 48 days</p>	<p>Sugar has moved to multi-year highs and the futures market is in backwardation (meaning futures prices are lower in deferred months as compared to the nearest month).</p> <p>This diagonal calendar call spread positions a trader for benefit if Sugar remains strong over the next 5 weeks.</p> <p>The short Apr 30 call is hedged by the closer-to-the-money long May 29 call.</p> <p>Implied volatility (IV) is very high (in the 99th percentile). Since this spread has a modest positive vega factor, it's not overly vulnerable if IV declines.</p> <p>Trading Plan/Suggested Risk:</p> <p>Establish the spread for a debit of approximately 96 points with an objective of closing the spread when it widens to a debit of 148 points (52 points better).</p> <p>This objective could be potentially achievable in 37 days (by Mar 4) provided the May SB futures contract rallies to about 29.40 (0.90 pts higher) but doesn't rally beyond about 33.00 (4.50 pts higher).</p> <p>Close the spread if the May SB contract declines to 27.00 (1.50 pts lower).</p> <p>In any event, close the spread no later than Mar 4 in 37 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.**

Number of Lines

Step through dates
 Step through volatilities

Max Proj. Date

Volty Chg

Amount Provided

Vertical Axis

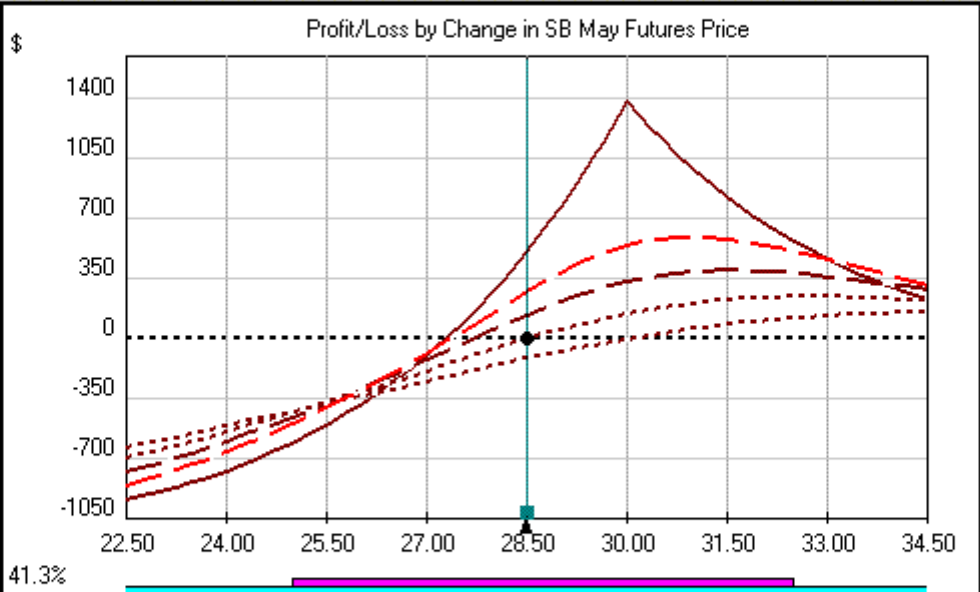
Mar 4, 2010
 Volty Chg: 0.0%
 Capital: \$1,195

E.R. \$64

+/- 478
 B.E. 27.40
 39.28
 P.P. 61%

Short 1 Apr30 Call, Long 1 May29 Call

Navigation buttons:

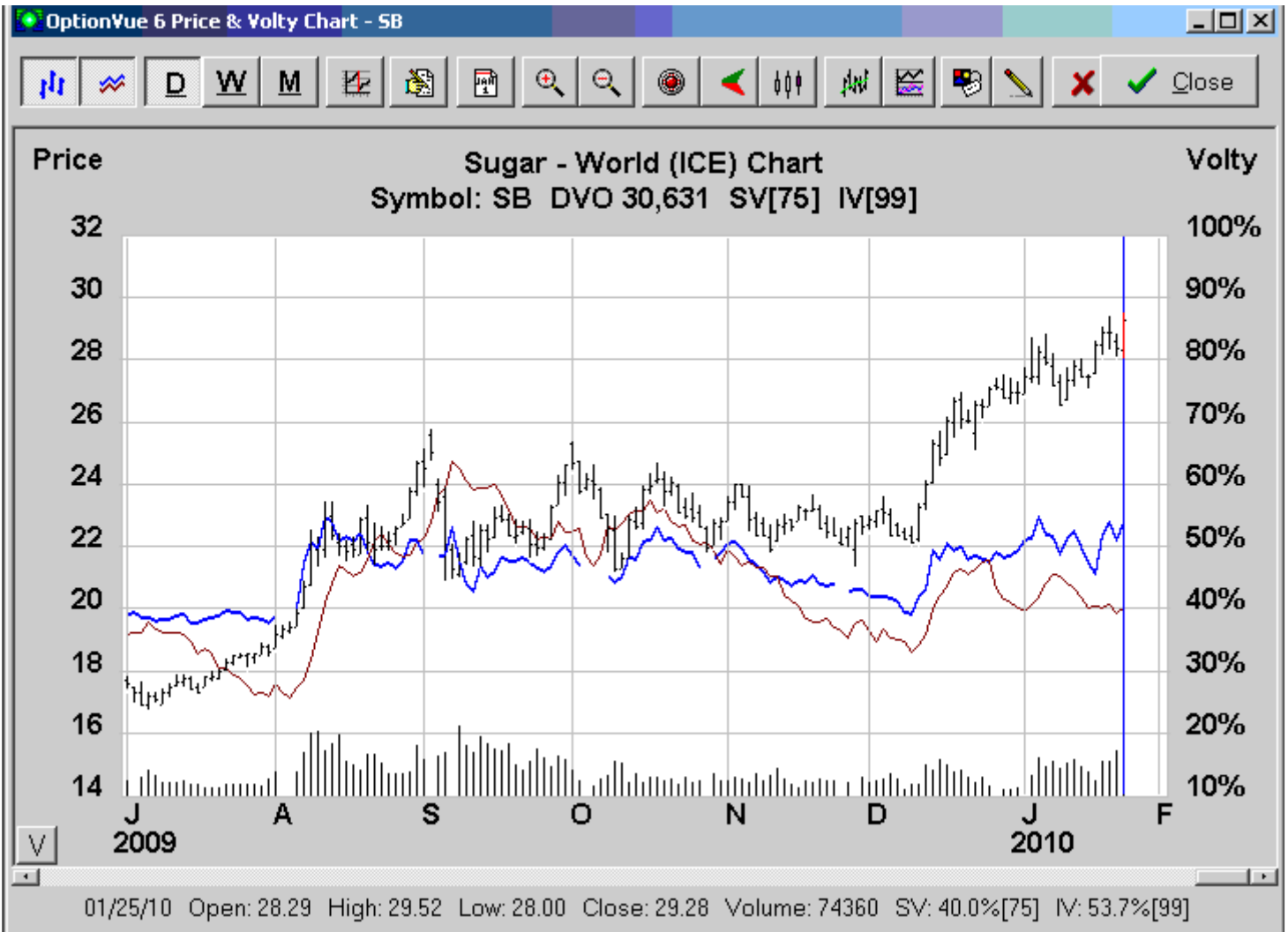


-120
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Navigation buttons:

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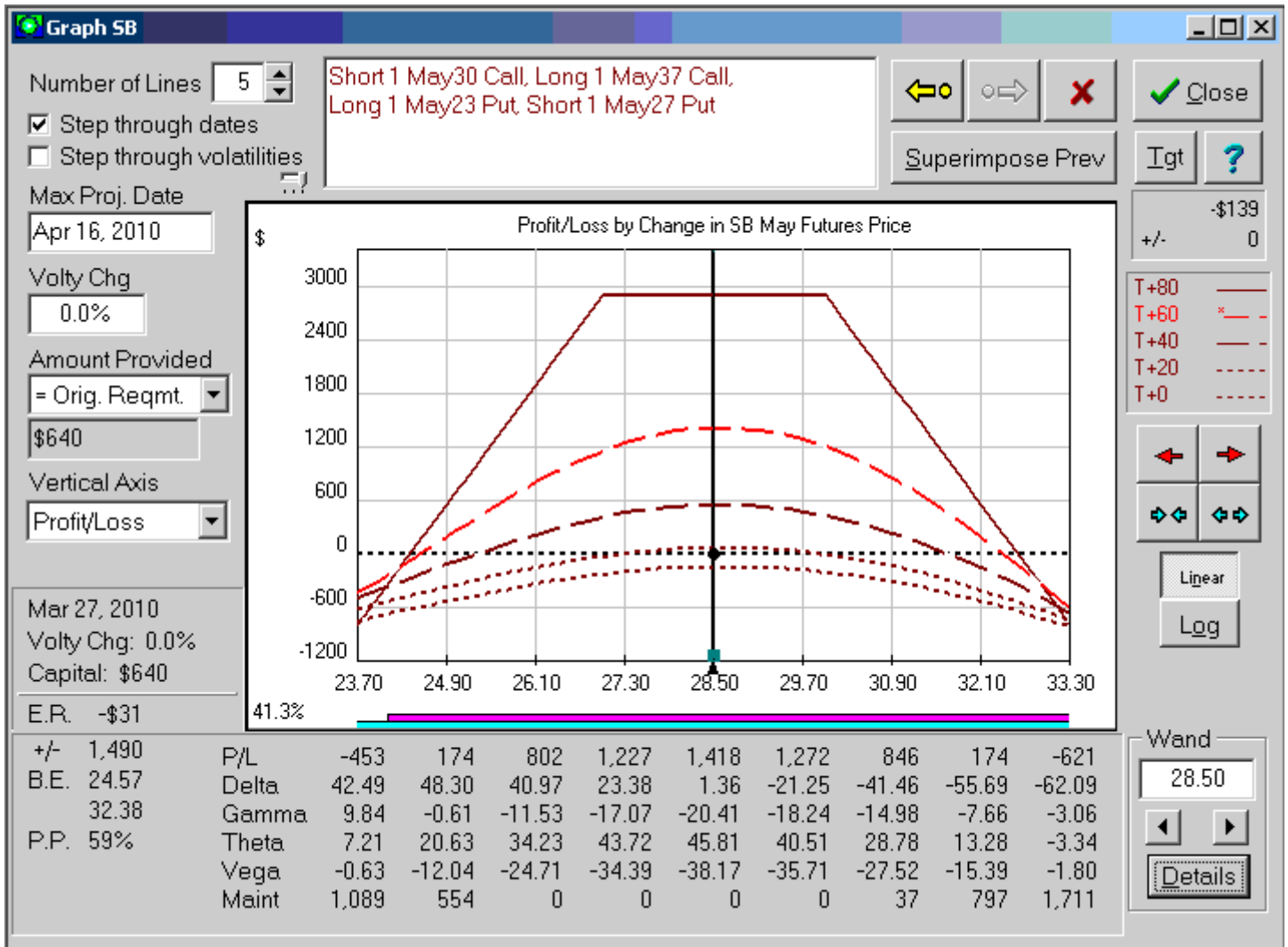
P/L	-859	-669	-411	-98	261	541	563	462	306
Delta	9.38	13.27	17.34	20.58	21.22	9.42	-4.36	-8.61	-8.78
Gamma	2.37	2.75	2.53	1.99	-1.55	-10.38	-4.13	-1.26	0.77
Theta	-3.49	-1.45	3.51	11.71	20.58	24.93	20.72	11.01	2.20
Vega	16.53	20.97	24.27	25.12	22.99	19.96	19.80	20.74	20.01
Maint	1,195	1,195	1,195	1,195	1,195	1,195	1,195	1,195	1,195



2. Sugar (SB) – May Broken Wing Iron Condor

Position / Closing Price @ 1/25	Entry Cost	Time	Comments/ Trading Plan
<p>Sell 1 May 30 call @ 237 Buy 1 May 37 call @ 100 and Sell 1 May 27 put @ 203 Buy 1 May 23 put @ 60</p> <p>1 point = \$11.20</p> <p>May SB @ 28.50</p> <p>Greeks: Delta +1 Gamma (6.00) Theta +\$10 Vega \$(35)</p> <p>Margin: \$ 640</p>	<p>Approx 280 or more points credit</p> <p>\$ (3,136)</p>	<p>May options expire on 4/15 in 79 days</p>	<p>Traders who don't want to bank on Sugar continuing to rally, may want to establish this broken wing iron condor which consists of a May 30 / 37 credit call spread along with a May 23 / 27 credit put spread.</p> <p>Each credit spread earns positive time decay, and the idea is to adjust the position as described below if May Sugar either declines or rallies to the specified levels.</p> <p>Trading Plan/Suggested Risk:</p> <p>Establish the spread for a credit of approximately 280 points with an objective of closing the spread when it narrows to a credit of 187 points (93 points better).</p> <p>This objective could be potentially achievable in 60 days (by Mar 27) provided the May SB futures contract remains above 26.10 (2.40 pts lower) and below 31.00 (2.50 pts higher).</p> <p>If May SB rallies 1.50 to 30.00, then adjust as follows:</p> <ul style="list-style-type: none"> (a) Buy 1 May 30 call (to close) (b) Sell 1 May 31 call (to open) (c) Buy 1 May 27 put (to close) (d) Sell 1 May 28 put (to open) <p>Then close the entire position if May SB rallies to 32.00 or declines to 28.00.</p> <p>If May SB declines 1.50 to 27.00, then adjust as follows:</p> <ul style="list-style-type: none"> (e) Buy 1 May 30 call (to close) (f) Sell 1 May 29 call (to open) (g) Buy 1 May 27 put (to close) (h) Sell 1 May 26 put (to open) <p>Then close the entire position if May SB declines to 25.00 or rallies to 29.00.</p> <p>In any event, close the entire position no later than Mar 27 in 60 days.</p>

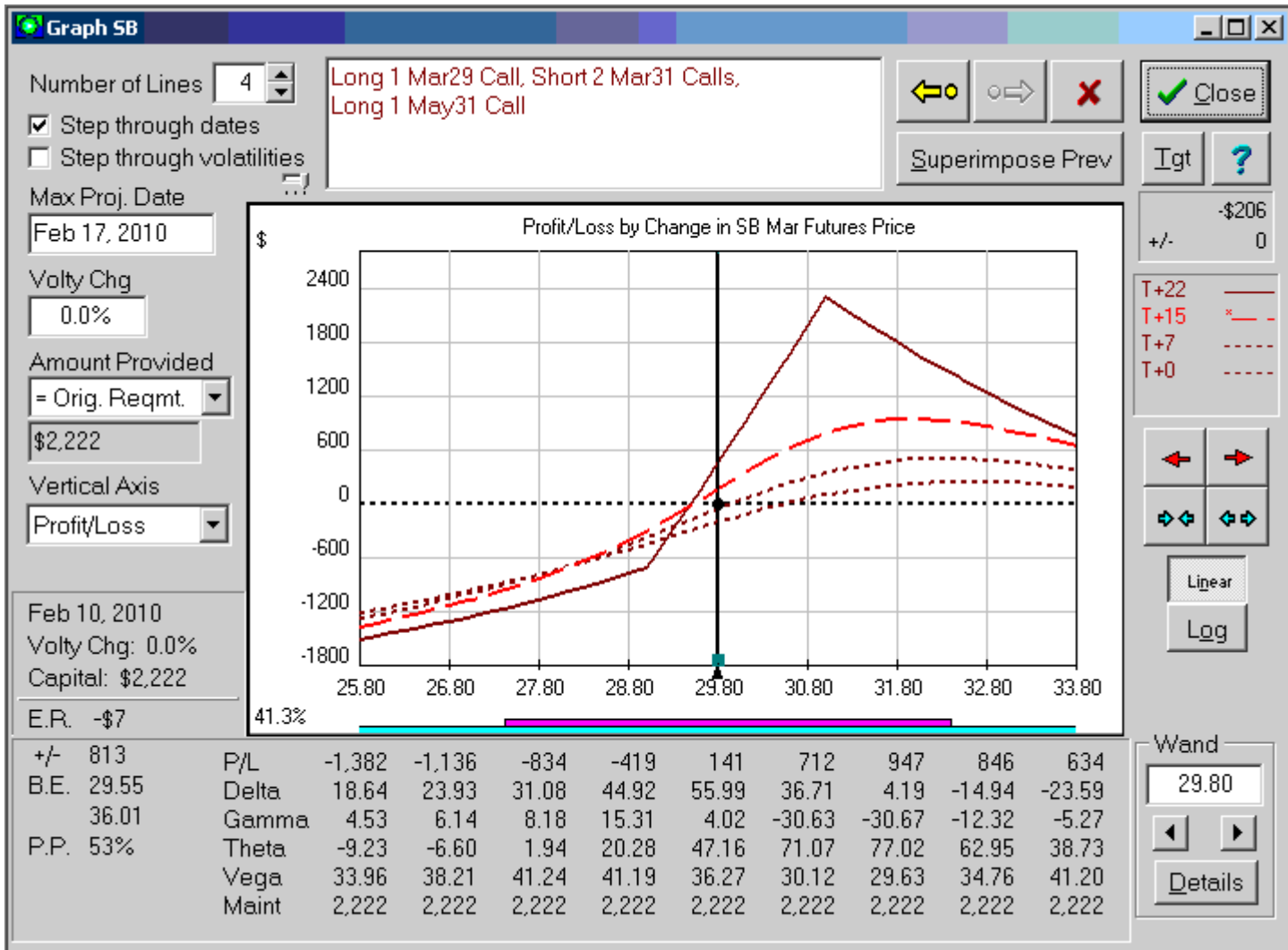
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3. Sugar (SB) – Mar / May Call Combination spread

Position / Closing Price @ 1/25	Entry Cost	Time	Comments/ Trading Plan
<p>Buy 1 Mar 29 call @ 196 Sell 2 Mar 31 calls @ 114 and Buy 1 May 31 call @ 209</p> <p>1 point = \$11.20</p> <p>Mar SB @ 29.80 May SB @ 28.50</p> <p>Greeks: Delta +26 Gamma (4.4) Theta +\$23 Vega +\$26</p> <p>Margin: \$ 2,222</p>	<p>Approx 177 or less points debit</p> <p>\$ 1,982.40</p>	<p>Mar options expire on 2/16 in 21 days</p>	<p>This is a very short term trade that would be suitable for aggressive traders willing to assume more risk than the amounts shown for Position # 1 and # 2.</p> <p>The combination position can be considered as a Mar 29 / 31 bull call spread along with a Mar 31 / May 31 calendar call spread. Since each component spread is bullish, the entire position is about +26 deltas starting out.</p> <p>Trading Plan/Suggested Risk:</p> <p>Establish the spread for a debit of approximately 177 points with an objective of closing the spread when it widens to a debit of 262 points (85 points better).</p> <p>This objective could be potentially achievable in 15 days (by Feb 10) provided the Mar SB futures contract rallies at least 1.00 pt to 30.80 but doesn't rally more than 3.70 pts to 33.50.</p> <p>Close the May 31 call (to close) if the Mar SB contract declines 1.20 to 28.60. Then hold the Mar 29 / 31 call ratio spread awaiting a reversal to the upside.</p> <p>In any event, close the spread no later than Feb 10 in 15 days.</p>

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WEEKLY OPTION IMPLIED VOLATILITY SURVEY ----- DATA through Jan 22, 2010

UNDERLYING MARKET	Symbol	Jan 22	Jan 15	Dec 31	Nov 27	Oct 30	Sep 25	(UP TO) 6YR I.V. RANGE	1.5-YEAR I.V. RANGE	6-YEAR % RANK	1.5 yr % RANK
Stocks, Int Rates											
S&P 500	SP	17.6	15.8	17.2	18.9	23.3	21.7	8.5 - 69.3	8.8 - 69.3	63	6
DOW JONES	DJ	15.7	15.7	17.5	16.2	20.6	20.2	8.3 - 66.5	8.3 - 66.5	59	1
EURODOLLAR	ED	110.8	106.1	106.3	110.7	112.7	112.7	7.7 - 168.7	7.7 - 168.7	97	87
TEN-YEAR Notes	TY	6.2	6.5	7.0	6.2	7.7	7.6	3.5 - 9.4	3.5 - 9.4	51	1
US 30-YR Bonds	US	10.9	11.2	11.1	11.7	13.0	13.0	5.2 - 21.7	5.2 - 21.7	69	13
CURRENCIES											
AUSTRALIAN \$	AD	13.9	12.5	13.0	14.5	16.0	14.1	6.2 - 46.7	6.2 - 46.7	72	8
BRITISH POUND	BP	10.4	10.5	11.2	11.7	13.1	11.4	4.9 - 29.5	4.9 - 29.5	71	5
CANADIAN \$	CD	12.1	11.2	11.5	13.8	15.6	13.7	5.8 - 26.9	5.8 - 26.9	72	10
EURO Currency	EC	10.7	10.0	10.4	10.5	10.7	10.2	4.7 - 28.7	4.7 - 28.7	72	22
JAPANESE YEN	JY	12.1	12.3	13.4	11.6	13.4	13.3	6.3 - 34.4	6.3 - 34.4	70	8
SWISS FRANC	SF	10.4	10.1	10.4	11.0	11.4	10.6	5.6 - 24.3	5.6 - 24.3	49	4
GRAINS											
CORN	C	31.5	31.4	33.3	33.6	39.5	34.1	15.6 - 50.2	25.3 - 50.2	51	1
WHEAT	W	34.3	36.0	40.0	37.6	38.4	29.9	20.1 - 61.1	29.1 - 61.1	60	12
SOYBEANS	S	25.4	25.7	30.2	29.2	29.8	28.3	16.4 - 50.0	20.0 - 50.0	38	1
SOYBEAN MEAL	SM	24.0	25.3	26.0	29.2	30.4	30.0	17.0 - 46.3	22.6 - 46.3	20	1
SOYBEAN OIL	BO	23.6	24.4	24.8	28.4	29.8	26.1	16.9 - 47.8	17.3 - 47.8	27	1
OATS	O	27.7	27.7	29.4	29.6	40.3	33.2	17.3 - 48.8	17.3 - 48.8	24	14
ROUGH RICE	RR/NR	22.1	22.1	25.8	24.7	27.8	22.4	12.7 - 47.0	12.7 - 47.0	35	6
FOODS, FIBER											
COFFEE	KC	28.2	31.4	30.9	31.5	31.8	32.3	23.2 - 62.5	23.2 - 62.5	14	1
COCOA	CO/CC	35.5	37.3	37.9	38.5	43.2	40.2	20.6 - 53.5	20.6 - 53.5	60	1
SUGAR	SB	50.5	49.7	48.5	42.9	48.1	47.0	18.6 - 52.0	18.6 - 52.0	99	95
ORANGE JUICE	OJ/JO	40.1	40.6	47.2	39.1	43.0	53.1	17.7 - 55.8	18.7 - 55.8	80	38
COTTON	CT	24.8	24.3	27.0	28.4	29.7	27.8	16.4 - 47.2	16.4 - 47.2	30	2
LUMBER	LB	29.9	29.9	29.5	29.4	28.6	34.8	18.6 - 53.5	21.2 - 53.5	64	41
METALS											
COPPER	HG	31.6	30.5	35.4	41.6	93.1	253.8	17.1 - 349	25.1 - 349	45	5
GOLD	GC	20.2	18.8	22.1	23.1	18.8	21.8	10.8 - 48.7	18.7 - 48.7	56	14
SILVER	SI	30.6	31.0	32.4	36.2	35.2	38.2	16.9 - 75.2	19.0 - 75.2	31	1
ENERGY											
CRUDE OIL	CL	31.8	31.3	33.0	37.4	40.6	45.9	24.8 - 99.9	24.8 - 99.9	34	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	32.1	30.7	33.5	38.0	40.6	45.8	25.9 - 73.6	25.9 - 73.6	30	1
NATURAL GAS	NG	50.1	54.9	55.9	54.2	54.0	67.8	30.0 - 98.1	33.6 - 91.4	40	3
MEATS											
LIVE CATTLE	LC	15.2	14.2	14.6	12.6	14.6	13.2	11.6 - 37.9	11.6 - 37.9	36	31
FEEDER CATTLE	FC	11.0	12.0	12.0	13.0	12.6	12.6	9.0 - 35.0	12.0 - 35.0	10	1
LEAN HOGS	LH	22.0	23.2	25.7	24.3	26.1	39.9	17.5 - 48.5	17.5 - 48.5	22	1

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.

LOW option implied volatility	HIGH option implied volatility	VOLATILITY NOTES
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, TY, AD, BP, CD, JY, SF, C, S, SM, BO, RR, KC, CO, CT, HG, SI, CL, HO, NG, FC and LH	SB	Implied volatility is extremely low in most markets.