

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.

Trading Ratio Spreads and “Tree” Spreads

Sunday, Feb. 28, 2010, 3:00p.m. to 4:15p.m. PT (ET 6:00 p.m.- 7:15 p.m.)

Ratio Spreads consist of a long option along with two or more short further out-of-the-money options having the same strike price. “Tree” Spreads are a subset of Ratio Spreads. They consist of a long option with two or more short further out-of-the-money options having different strikes. They generate positive time decay, they can be delta neutral, delta long or delta short, and they benefit if implied volatility decreases. Ratio Spreads and “Tree” Spreads can be high probability strategies given the proper market environment.

In this webinar, Paul shows you what that market environment should be. He also shows you how to choose the strikes to use, evaluate the potential profits as compared to possible losses, analyze the Greeks (delta, gamma, theta, and vega), and determine in advance when to adjust and what type of adjustment to make.

The serious trader should learn these strategies and have them in his trading arsenal.

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, February 2, 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

1. **US Bonds (US) – Apr / Jun Strangle Swap – Speculative Statistical Volatility – neutral**
2. **Gold (GC) – Apr Call Ratio spread – Speculative Directional – bullish**
3. **Gold (GC) – Mar / Apr Reverse Diagonal Calendar Put spread – Speculative Directional -- bullish**

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

FUTURES AND OPTIONS TRADING CAN INVOLVE SUBSTANTIAL FINANCIAL RISK

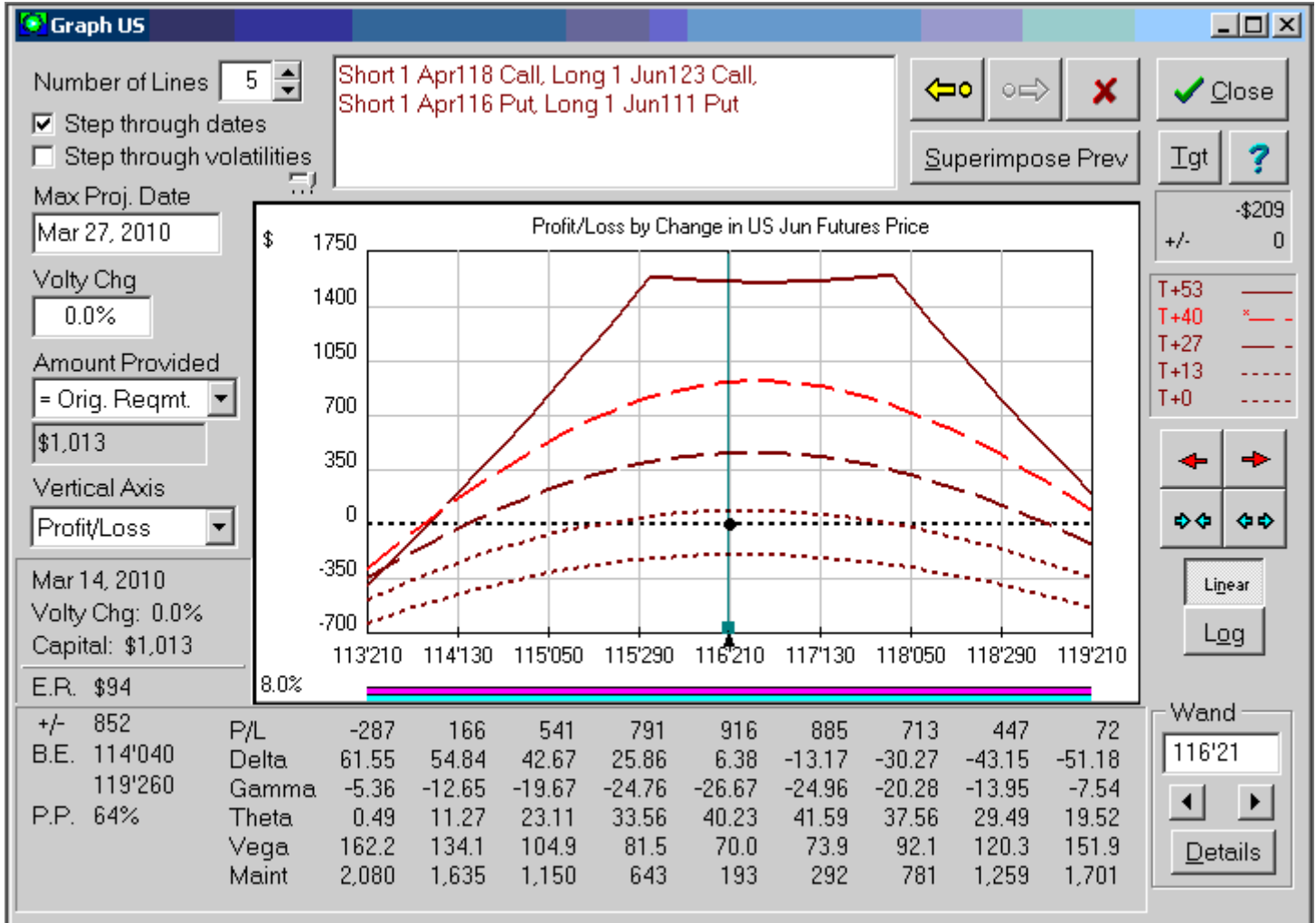
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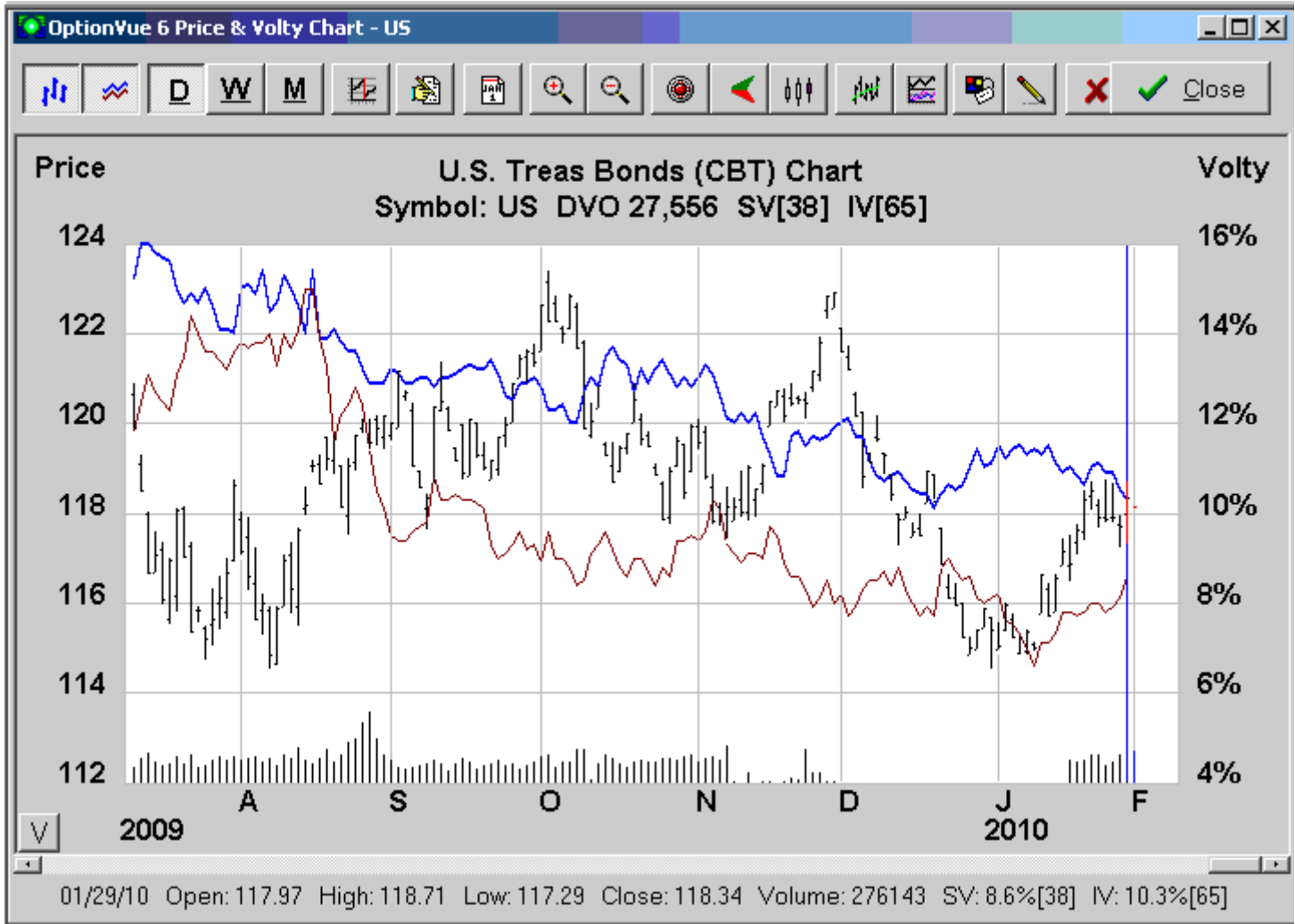
The weekly option implied volatility survey can be found on the last page

1. US Bonds (US) – Apr / Jun Strangle Swap

Position / Closing Price @ 2/1	Entry Cost	Time	Comments/ Trading Plan
<p>Sell 1 Apr 118 call @ 1'18 Sell 1 Apr 116 put @ 1'40 and Buy 1 Jun 123 call @ 0'44 Buy 1 Jun 111 put @ 0'63</p> <p>'01 tick = \$15.625 '64 ticks = 1'00 pt = \$1,000</p> <p>Jun US @ 116'21 Note: Apr US options are tied to Jun US futures</p> <p>Greeks: Delta +1 Gamma (9.2) Theta +\$16 Vega +\$14</p> <p>Margin: \$ 1,013</p>	<p>Approx. 1'15 or more points credit</p> <p>\$ (1,234.37)</p>	<p>Apr options expire on 3/26 in 52 days</p>	<p>The Jun US Bond declined about 8'16 pts from its high on Nov 27 to a low on Dec 31. It has subsequently retraced about 50% of the decline and may next trade in a sideways channel.</p> <p>This Apr / Jun strangle swap consists of a short Apr put and call (each about 1'00 pt out of the money) and a long Jun put and call that are each 5 pts further out of the money. The long Jun strangle provides some insurance for the short Apr strangle.</p> <p>The idea is to earn positive time decay over the next 6 weeks and to adjust as described below if the Jun US Bond either rallies to 118'00 or declines to 115'20.</p> <p>This spread has a small vega factor so changes in implied volatility should not have a major impact on results.</p> <p>Trading Plan/Suggested Risk:</p> <p>Establish the spread for a credit of approximately 1'15 points with an objective of closing the spread when it narrows to a credit of 0'29 ticks (0'50 ticks better).</p> <p>This objective could be potentially achievable in 40 days (by Mar 14) provided the Jun US futures contract doesn't rally above 118'22 or decline below 115'05.</p> <p>If the Jun US Bond rallies to 118'00, then: (a) Buy 1 Apr 118 call (to close) (b) Sell 1 Apr 120 call (to open)</p> <p>If the Jun US Bond continues to rally to 119'00, then close the entire position.</p> <p>If the Jun US Bond declines to 115'20, then: (c) Buy 1 Apr 116 put (to close) (d) Sell 1 Apr 114 put (to open)</p> <p>If the Jun US Bond continues to decline to 114'00, then close the entire position.</p> <p>In any event, close the entire position no later than Mar 14 in 40 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.**

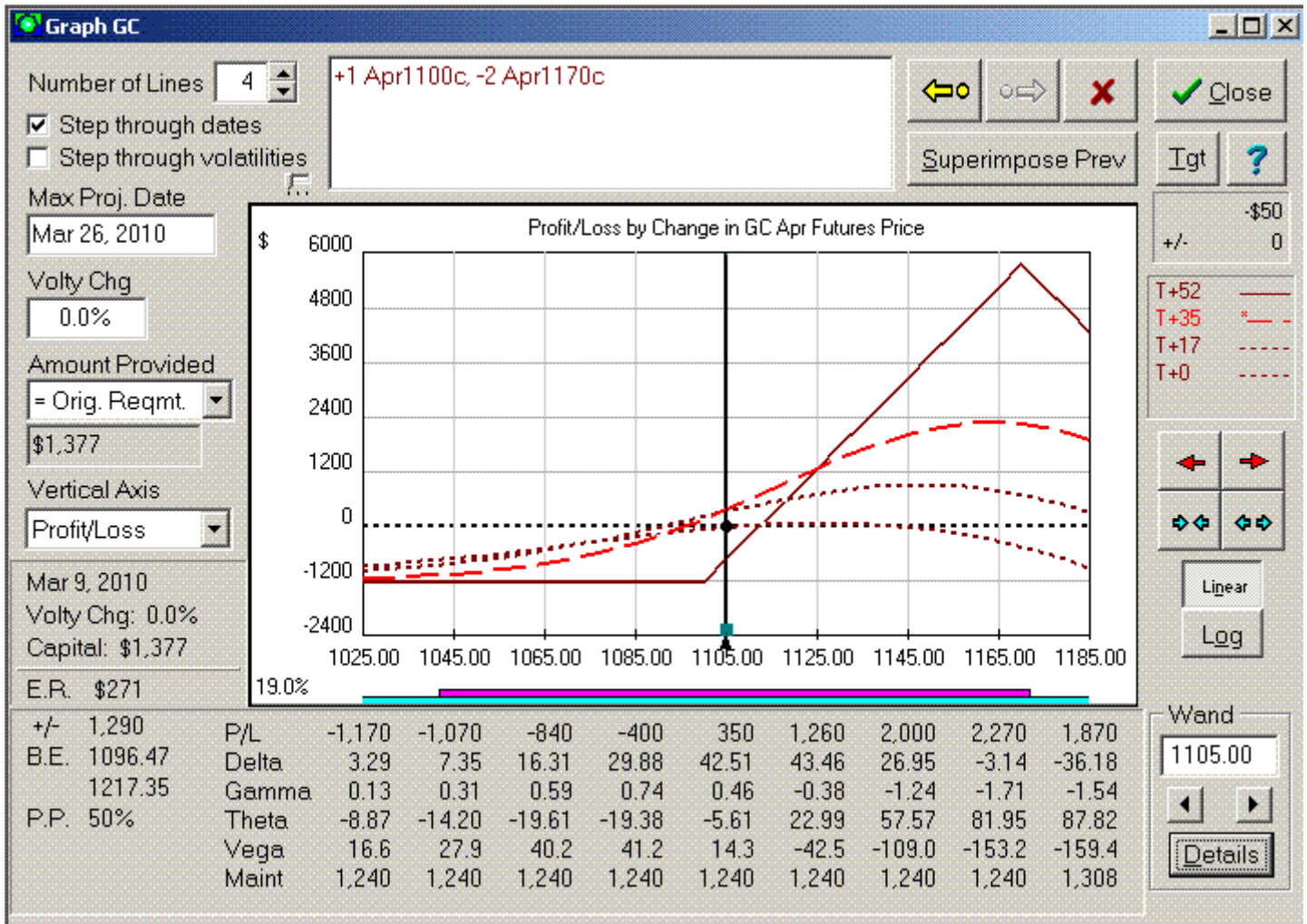


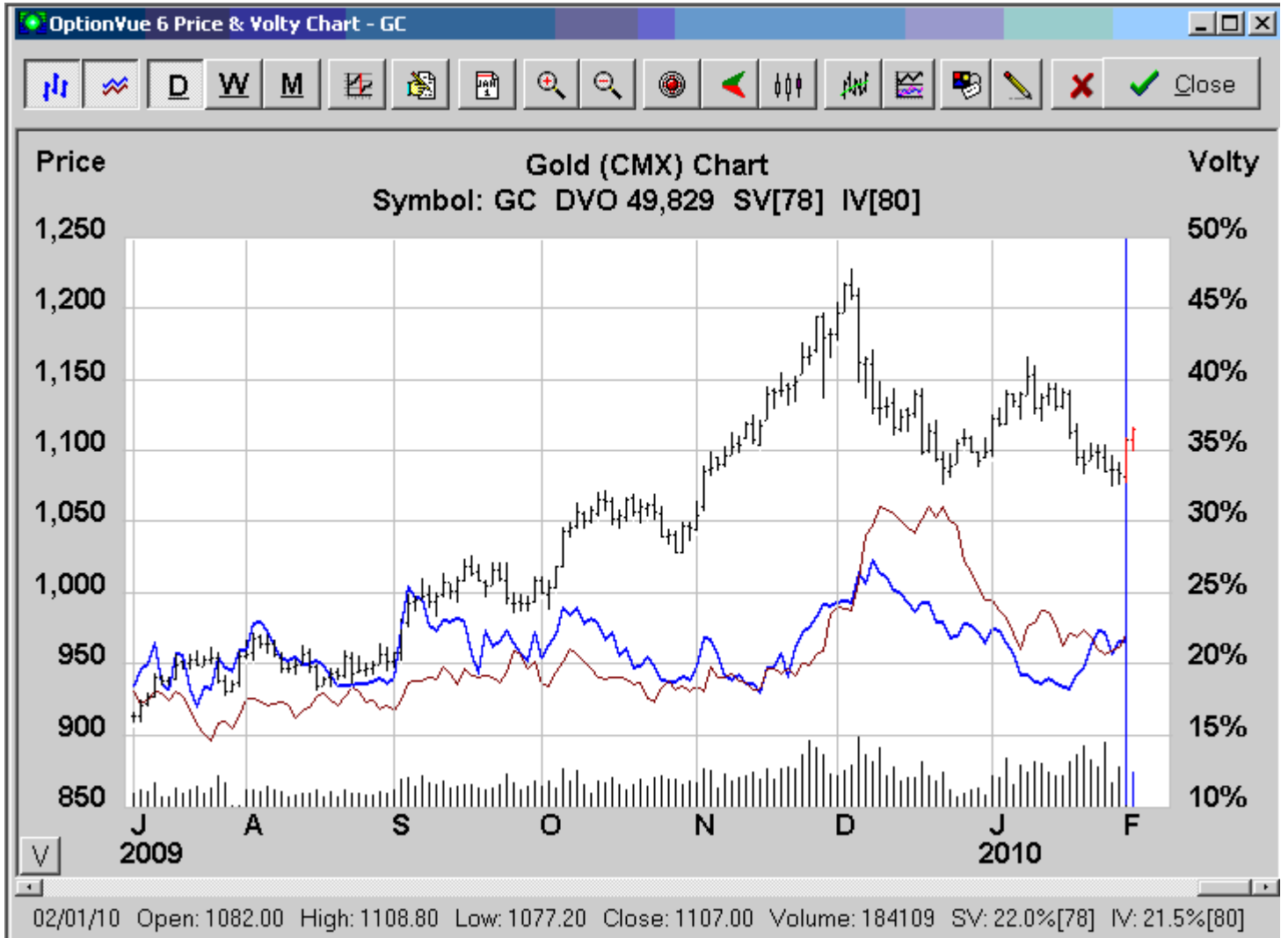


2. Gold (GC) – Apr Call Ratio spread

Position / Closing Price @ 2/1	Entry Cost	Time	Comments/ Trading Plan
<p>Buy 1 Apr 1100 call @ 3700 Sell 2 Apr 1170 calls @ 1320</p> <p>1 point = \$1</p> <p>Apr GC @ 1105.00</p> <p>Greeks: Delta +8 Gamma (0.28) Theta +\$22 Vega \$(99)</p> <p>Margin: \$ 1,377</p>	<p>Approx 1060 or less points debit</p> <p>\$ 1,060</p>	<p>Apr options expire on 3/25 in 51 days</p>	<p>Gold declined about 11% from its high on Dec 3.</p> <p>Buyers can be expected to return at any time, especially given concerns about fiscal responsibility.</p> <p>This call ratio spread begins 8 deltas long and benefits over the next 5 weeks if Gold moves higher.</p> <p>It also earns positive time decay because the two short Apr 1170 calls decay faster than the one long Apr 1100 call.</p> <p>Trading Plan/Suggested Risk:</p> <p>Establish the spread for a debit of approximately 1060 points with an objective of closing the spread when it widens to a debit of 2500 points (1440 points better).</p> <p>This objective could be potentially achievable in 35 days (by Mar 9) provided the Apr GC futures contract rallies above 1125.00 (20.00 higher).</p> <p>If Apr GC rallies 60.00 to 1165.00, then adjust as follows:</p> <p style="text-align: right;">Buy 1 Apr 1170 call (to close) Sell 1 Apr 1200 call (to open)</p> <p>Then close the entire position if Apr GC rallies to 1185.00.</p> <p>If Apr GC declines to 1085.00, then close the spread.</p> <p>In any event, close the entire position no later than Mar 9 in 35 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.**

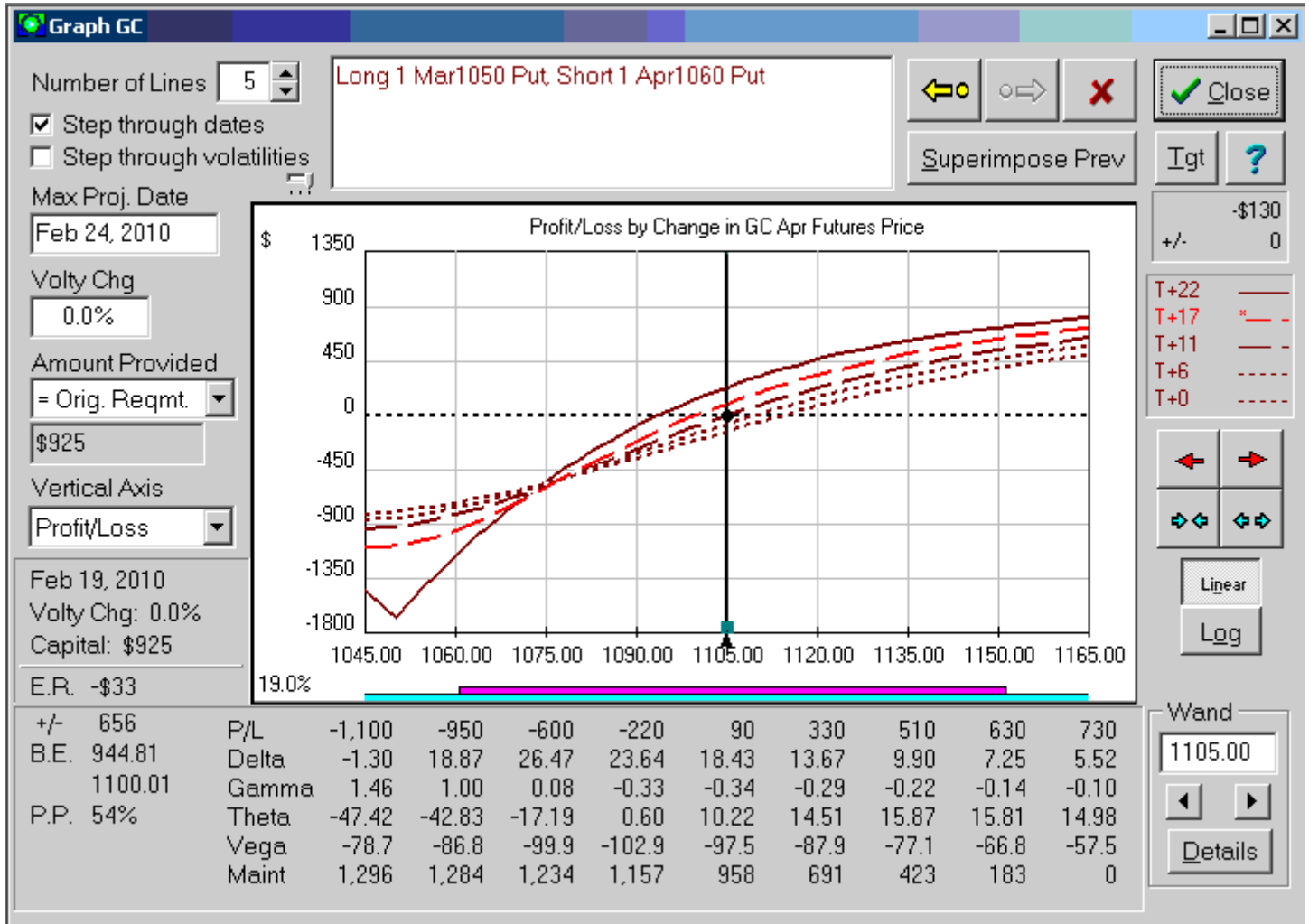




3. Gold (GC) – Mar / Apr Reverse Diagonal Calendar Put spread

Position / Closing Price @ 2/1	Entry Cost	Time	Comments/ Trading Plan
<p>Buy 1 Mar 1050 put @ 480 Sell 1 Apr 1060 put @ 1690</p> <p>1 point = \$1</p> <p>Apr GC @ 1105.00 Note: Mar GC options are tied to Apr GC futures</p> <p>Greeks: Delta +14 Gamma (0.1) Theta \$(1) Vega \$(79)</p> <p>Margin: \$ 925</p>	<p>Approx 1210 or more points credit</p> <p>\$ (1,210)</p>	<p>Mar options expire on 2/23 in 21 days</p>	<p>This is a very short term trade that benefits from a rally in Gold.</p> <p>The short Apr 1060 put is partially hedged by the long, less expensive Mar 1050 put.</p> <p>Trading Plan/Suggested Risk:</p> <p>Establish the spread for a credit of approximately 1210 points with an objective of closing the spread when it narrows to a credit of 580 points (630 points better).</p> <p>This objective could be potentially achievable in 17 days (by Feb 19) provided the Apr GC futures contract rallies at least 30.00 to 1135.00.</p> <p>If Apr GC declines 25.00 to 1080.00, then close the spread.</p> <p>In any event, close the spread no later than Feb 19 in 17 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 29, 2010

UNDERLYING MARKET	Symbol	Jan 29	Jan 22	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	21.4	17.6	17.2	18.9	23.3	21.7	8.5 - 69.3	8.8 - 69.3	73	27
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	107.0	110.8	106.3	110.7	112.7	112.7	7.7 - 168.7	7.7 - 168.7	94	77
TEN-YEAR Notes	TY	6.1	6.2	7.0	6.2	7.7	7.6	3.5 - 9.4	3.5 - 9.4	50	1
US 30-YR Bonds	US	10.7	10.9	11.1	11.7	13.0	13.0	5.2 - 21.7	5.2 - 21.7	68	12
CURRENCIES											
AUSTRALIAN \$	AD	14.0	13.9	13.0	14.5	16.0	14.1	6.2 - 46.7	6.2 - 46.7	72	12
BRITISH POUND	BP	10.7	10.4	11.2	11.7	13.1	11.4	4.9 - 29.5	4.9 - 29.5	73	6
CANADIAN \$	CD	11.9	12.1	11.5	13.8	15.6	13.7	5.8 - 26.9	5.8 - 26.9	71	8
EURO Currency	EC	10.9	10.7	10.4	10.5	10.7	10.2	4.7 - 28.7	4.7 - 28.7	75	28
JAPANESE YEN	JY	13.1	12.1	13.4	11.6	13.4	13.3	6.3 - 34.4	6.3 - 34.4	73	14
SWISS FRANC	SF	10.5	10.4	10.4	11.0	11.4	10.6	5.6 - 24.3	5.6 - 24.3	53	9
GRAINS											
CORN	C	28.4	31.5	33.3	33.6	39.5	34.1	15.6 - 50.2	25.3 - 50.2	41	1
WHEAT	W	31.8	34.3	40.0	37.6	38.4	29.9	20.1 - 61.1	29.1 - 61.1	52	6
SOYBEANS	S	24.4	25.4	30.2	29.2	29.8	28.3	16.4 - 50.0	20.0 - 50.0	31	1
SOYBEAN MEAL	SM	23.1	24.0	26.0	29.2	30.4	30.0	17.0 - 46.3	22.6 - 46.3	13	1
SOYBEAN OIL	BO	23.1	23.6	24.8	28.4	29.8	26.1	16.9 - 47.8	17.3 - 47.8	24	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	28.2	30.9	31.5	31.8	32.3	23.2 - 62.5	23.2 - 62.5	14	4
COCOA	CO/CC	34.3	35.5	37.9	38.5	43.2	40.2	20.6 - 53.5	20.6 - 53.5	55	1
SUGAR	SB	49.7	50.5	48.5	42.9	48.1	47.0	18.6 - 52.0	18.6 - 52.0	98	90
ORANGE JUICE	OJ/JO	39.8	40.1	47.2	39.1	43.0	53.1	17.7 - 55.8	18.7 - 55.8	79	38
COTTON	CT	28.8	24.8	27.0	28.4	29.7	27.8	16.4 - 47.2	16.4 - 47.2	56	22
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	32.0	31.6	35.4	41.6	93.1	253.8	17.1 - 349	25.1 - 349	49	10
GOLD	GC	21.6	20.2	22.1	23.1	18.8	21.8	10.8 - 48.7	18.7 - 48.7	65	26
SILVER	SI	32.1	30.6	32.4	36.2	35.2	38.2	16.9 - 75.2	19.0 - 75.2	40	5
ENERGY											
CRUDE OIL	CL	32.9	31.8	33.0	37.4	40.6	45.9	24.8 - 99.9	24.8 - 99.9	38	4
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	32.8	32.1	33.5	38.0	40.6	45.8	25.9 - 73.6	25.9 - 73.6	34	3
NATURAL GAS	NG	47.3	50.1	55.9	54.2	54.0	67.8	30.0 - 98.1	33.6 - 91.4	35	1
MEATS											
LIVE CATTLE	LC	15.9	15.2	14.6	12.6	14.6	13.2	11.6 - 37.9	11.6 - 37.9	46	37
FEEDER CATTLE	FC	12.4	11.0	12.0	13.0	12.6	12.6	9.0 - 35.0	12.0 - 35.0	24	9
LEAN HOGS	LH	23.0	22.0	25.7	24.3	26.1	39.9	17.5 - 48.5	17.5 - 48.5	35	3

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).
DJ, TY, BP, CD, 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.