

Weekly Options Report

BY PAUL FORCHIONE



Tuesday, February 15, 2011

Markets are listed in order of daily \$ value of options traded (DVO).
 Data is organized to highlight trading edge opportunities using futures options.
 Data as of February 11, 2011

Symbol	Name	DVO (\$000's)	UND'L Size	Under Valued	Over Valued	SV%	SV Pctl	IV%	IV Pctl	IV%>SV%
SP	S&P 500 Index (CME)	62446	331,750		B	11.30%	13	12.80%	1	C
ES	E-Mini S&P 500 (CME)	21226	66,363		B	11.80%	8	12.30%	1	C
CL	Crude Oil (NYM)	14676	92,350		B	22.70%	8	26.70%	6	C
ZN	U.S. 10-yr Treas Notes	11817	116,906		E	7.40%	56	7.50%	71	C
GC	Gold (CMX)	10052	136,040	D		13.60%	14	13.10%	1	
ZC	Corn (CBT)	8841	35,863		B	29.50%	30	30.00%	18	C
CT	Cotton (ICE)	5957	92,780		E	48.50%	88	59.10%	99	C
6E	EuroFX (CME)	5321	169,175		B	10.70%	12	11.10%	39	C
ZB	U.S. Treas Bonds (CBT)	5060	116,781	A		12.30%	53	11.40%	36	
ZS	Soybeans (CBT)	4052	71,450		B	20.40%	16	21.60%	6	C
SI	Silver (CMX)	3582	150,095		B	26.10%	14	29.10%	21	C
ZW	Wheat (CBT)	2000	44,938		B	31.60%	18	34.60%	42	C
NG	Natural Gas (NYM)	1889	40,520	D		37.70%	21	32.90%	1	
6J	Japanese Yen (CME)	1650	149,738	D		9.80%	14	9.60%	1	
ZM	Soybean Meal (CBT)	1467	38,210		B	22.30%	4	23.40%	13	C
KC	Coffee (ICE)	1423	95,400		B	31.30%	40	36.10%	68	C
LE	Cattle - Live (CME)	1281	45,080	A		18.00%	95	16.10%	92	
ZF	U.S. 5-yr Treas Notes	967	115,422	A		4.80%	57	4.70%	69	
HE	Hogs - Lean (CME)	877	36,950	D		24.00%	47	20.80%	19	
SB	Sugar - World (ICE)	739	32,917	A		60.70%	78	56.70%	94	
CC	Cocoa (ICE)	616	33,580	A		36.70%	86	33.90%	56	
GE	Eurodollar (CME)	615	248,925	A		283.2%	92	84.90%	12	
6A	Australian Dollar (CME)	506	99,820		B	9.70%	1	11.80%	10	C
6C	Canadian Dollar (CME)	489	101,210	D		8.80%	4	8.50%	1	
6B	British Pound (CME)	448	100,119		B	8.10%	1	9.60%	5	C
6S	Swiss Franc (CME)	205	128,375	D		11.60%	19	11.00%	44	
ZL	Soybean Oil (CBT)	130	35,442		B	21.70%	32	23.10%	42	C
GF	Cattle - Feeder (CME)	115	63,013	A		15.10%	99	13.10%	58	
HO	Heating Oil (NYM)	68	113,929	D		23.90%	18	23.40%	3	
OJ	Orange Juice (ICE)	52	24,653		B	27.50%	5	31.30%	23	C
RB	Gasoline (RBOB: NYM)	34	109,830	D		25.90%	27	25.70%	8	
DX	U.S. Dollar Index (ICE)	17	78,570	D		9.60%	29	9.20%	9	

OPTION MARKET COMMENTS – Data is from **OptionVue (800-733-6610)**. Pctl figures are based on 1.5 yrs of weekly implied and statistical volatility data. Liquidity and underlying contract size are also important.

<p><u>A -- UNDERVALUED options</u> Consider option buying strategies: (option purchases, ratio backspreads and long straddles or long strangles)</p> <p>IV% < SV% and SV PctL > 50</p> <p><u>D – Calendar spreads</u> IV% < SV% and SV PctL < 50</p>	<p><u>B -- OVERVALUED options</u> Consider option selling strategies: (option sales, ratio spreads, and short straddles or short strangles).</p> <p>IV% > SV% and SV PctL < 50</p> <p><u>E – Reverse Calendar spreads</u> IV% > SV% and SV PctL > 50</p>	<p><u>C – Impl Vol % >Stat Vol %</u> Consider iron butterflies and iron condors if neutral outlook. Consider call butterflies and call condors if bullish outlook. Consider put butterflies and put condors if bearish outlook.</p> <p>IV% > SV%</p>
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Each position in this Report...

(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 / Adaptive** – 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 / Adaptive** 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 rankings 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. **Corn (ZC) – May Iron Condor**
Speculative Statistical Volatility (neutral to bullish)
2. **Eurocurrency (6E) – Apr / Jun Strangle Swap**
Speculative Implied Volatility (rise) and Speculative Statistical Volatility (neutral)
3. **Gold (GC) – Apr / Jun Strangle Swap**
Speculative Implied Volatility (rise) and Speculative Statistical Volatility (neutral)

Jeff Lewandowski, Director of the Futures Options Division, has created several video tutorials showing how to use PFGBEST's trading platform -- BestDirect 8 ("BD8"). Click on the "PFGBest.com Web" tab and then select "Web Tutorials" to learn about the flexibility and power of the BD8 trading platform.

In addition, you can watch a video showing how to use BD8 to place orders for the options spreads in today's Weekly Report. Just click on the link below later this afternoon:

<http://www.screencast.com/t/f3VyE86G0AJP>

Questions or Comments? Call Paul at 877-288-1037 or send me an email at owl@west.net

Next week's issue of the Weekly Report will be available on Wednesday, Feb 23 because Monday is a holiday (President's Day).

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 publication be construed as an express or implied promise, guarantee or implication by or from PFGBEST, 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.

1. Corn (ZC) – May Iron Condor

Position / Closing Price @ Feb 14	Entry Cost	Time	Comments
<p>Sell 1 May 750 call @ 23 3/4 Buy 1 May 820 call @ 9 1/2 And Sell 1 May 700 put @ 36 1/2 Buy 1 May 640 put @ 13 3/4</p> <p>1 cent = \$50 3/4 cent = \$37.50</p> <p>May ZC @ 706 1/2</p> <p>Greeks: Delta +3 Gamma (0.3) Theta +\$8 Vega \$(33)</p> <p>Margin: \$ 543</p>	<p>Approx. 37 or more cents credit</p> <p>\$(1,850)</p>	<p>May options expire on 4/21 in 66 days</p>	<p>Over the past 6 weeks Corn has trended higher and implied volatility has trended lower.</p> <p>This May iron condor anticipates that over the next 6 weeks Corn will be steady to higher in price. It consists of a May 750 / 820 credit call spread along with a May 640 / 700 credit put spread.</p> <p>The trading plan below identifies trigger levels to adjust if May Corn declines to either 686 1/2 or rallies to 750. These adjustments reduce directional exposure in the event Corn trends too much.</p> <p>Trading Plan / Suggested Risk:</p> <p>Establish the spread for a credit of approximately 37 cents with the objective of closing the spread when it narrows to a credit of 23 cents (14 cents better).</p> <p>This objective could be potentially achievable in 45 days (by Mar 31) provided the May ZC futures contract doesn't decline below about 691 (15 1/2 cents lower) and doesn't rally above about 754 1/2 (48 cents higher).</p> <p>If the May ZC contract declines to 686 1/2, then adjust by: (a) Buying 1 May 700 put (to close) and (b) Selling 1 May 670 put (to open)</p> <p>Close all positions if the May ZC contract continues to decline to 646 or reverses and rallies to 730.</p> <p>If the May ZC contract rallies to 750, then adjust by: (a) Buying 1 May 750 call (to close) and (b) Selling 1 May 790 call (to open)</p> <p>Close all positions if the May ZC contract continues to rally to 810 or reverses and declines to 720.</p> <p>In any event, close all positions no later than Mar 31 in 45 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 \$50 / 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 4

- Step through dates
- Step through volatilities

Max Proj. Date

Apr 22, 2011

Volty Chg

0.0% Pts

Amount Provided

= Orig. Reqmt.

\$543

Vertical Axis

Profit/Loss

Mar 31, 2011

Volty Chg: 0.0%

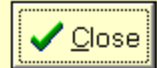
Capital: \$543

E.R. -\$64

Short 1 May750 Call, Long 1 May820 Call,
Long 1 May640 Put, Short 1 May700 Put



Superimpose Prev



Igt ?

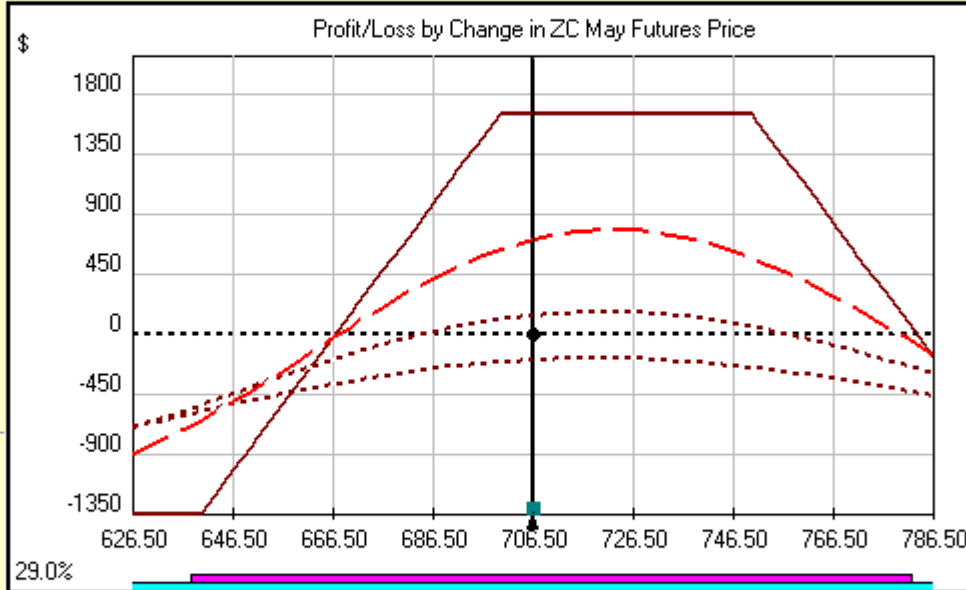
-\$194
+/- 0

- 04-22-11
- 03-31-11
- 03-08-11
- 02-14-11

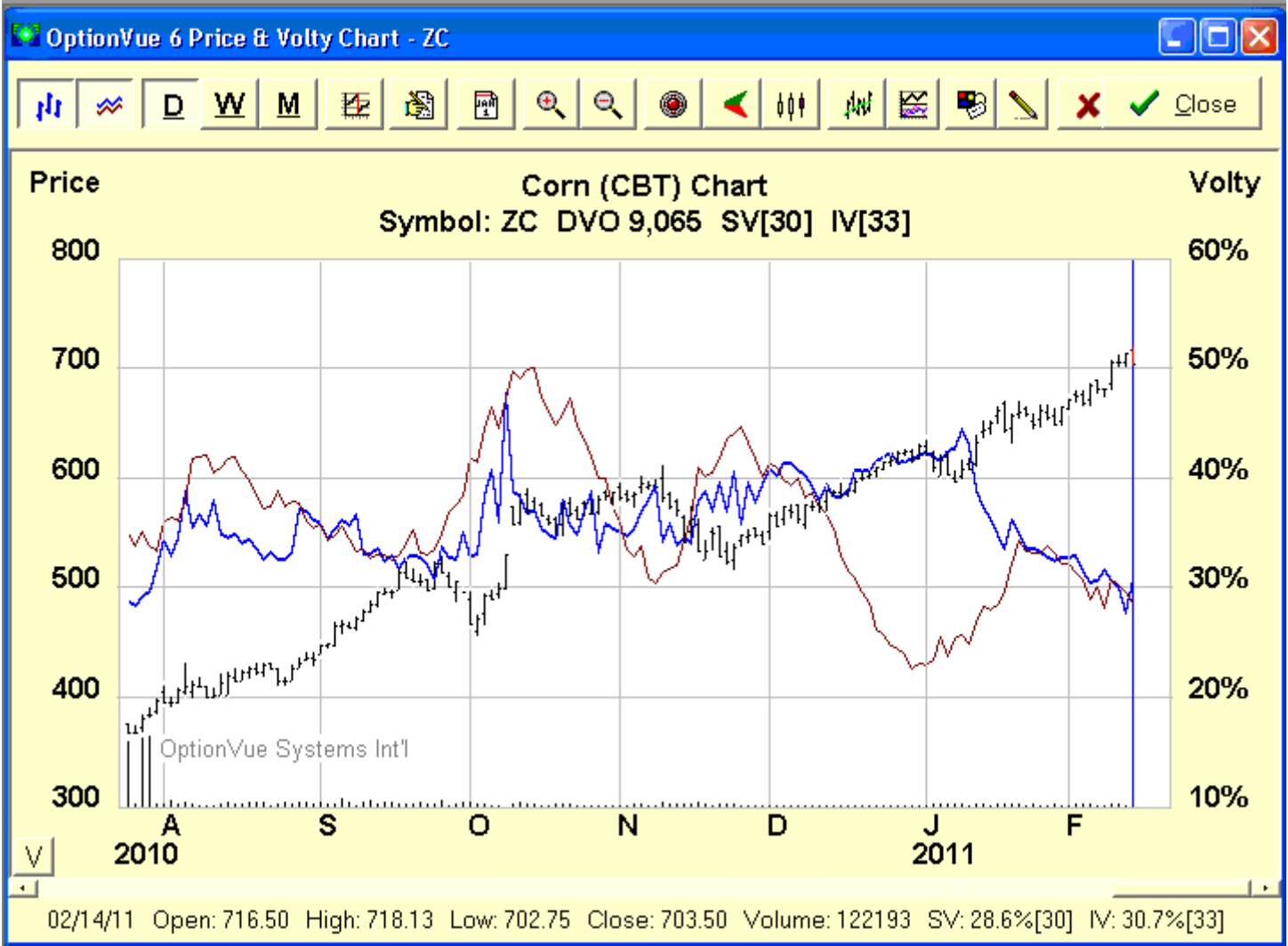


Linear
Log

Wand
706'4
Details



+/- 752	P/L	-894	-519	-31	412	700	769	612	275	-163
B.E. 668'0(-5%)	Delta	31.59	44.56	48.29	38.36	18.71	-4.77	-25.85	-40.05	-45.26
779'3(+10%)	Gamma	0.75	0.49	-0.16	-0.81	-1.13	-1.16	-0.90	-0.51	-0.03
P.P. 54%	Theta	-10.24	-5.24	5.08	16.76	25.16	27.70	24.06	15.45	4.58
	Vega	17.90	9.88	-7.29	-26.61	-40.19	-44.08	-37.98	-24.08	-6.78
	Maint	1,308	1,171	829	272	0	0	0	377	919



2. Eurocurrency (6E) – Apr / Jun Strangle Swap

Position / Closing Price @ Feb 14	Entry Cost	Time	Comments
<p>Sell 1 Apr 137 call @ 134 Sell 1 Apr 132 put @ 138 And Buy 1 Jun 140 call @ 136 Buy 1 Jun 129 put @ 155</p> <p>1 point = \$12.50</p> <p>Jun 6E @ 134.61 Note: Apr 6E options are tied to Jun 6E futures</p> <p>Greeks: Delta +1 Gamma (5.0) Theta +\$18 Vega +\$134</p> <p>Margin: \$ 1,254</p>	<p>Approx 19 or less points debit</p> <p>\$ 237.50</p>	<p>Apr options expire on 4/8 in 53 days</p>	<p>The Eurocurrency futures contract rallied about 8.00 points in January and in February it's reversed direction and declined about 3.00 points. Implied volatility has dropped about 3 pct pts over this period.</p> <p>This Apr / Jun strangle swap is structured to benefit over the next 5 weeks from positive time decay and from an anticipated increase in implied volatility of 1 pct pt.</p> <p>The trading plan below identifies trigger levels to adjust in the event the Jun Eurocurrency contract either declines to 132.50 (2.11 pts lower) or rallies to 137.00 (2.39 pts higher). The adjustments reduce directional risk if the Eurocurrency trends.</p> <p>Trading Plan / Suggested Risk:</p> <p>Establish the spread for a debit of approximately 19 points with the objective of closing the spread when it widens to a debit of 77 points (58 points better).</p> <p>This objective could be potentially achievable in 36 days (by Mar 22) provided the Jun 6E futures contract doesn't decline below about 132.11 (2.50 points lower) and doesn't rally above about 137.61 (3.00 points higher).</p> <p>If the Jun 6E contract declines to 132.50, then adjust by: (a) Buying 1 Apr 132 put (to close) and (b) Selling 1 Apr 130 put (to open)</p> <p>Close all positions if the Jun 6E contract continues to decline to 130.00 or reverses and rallies to 135.00.</p> <p>If the Jun 6E contract rallies to 137.00, then adjust by: (a) Buying 1 Apr 137 call (to close) and (b) Selling 1 Apr 138.5 call (to open)</p> <p>Close all positions if the Jun 6E contract continues to rally to 139.50 or reverses and declines to 134.50.</p> <p>In any event, close all positions no later than Mar 22 in 36 days.</p>

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Graph 6E

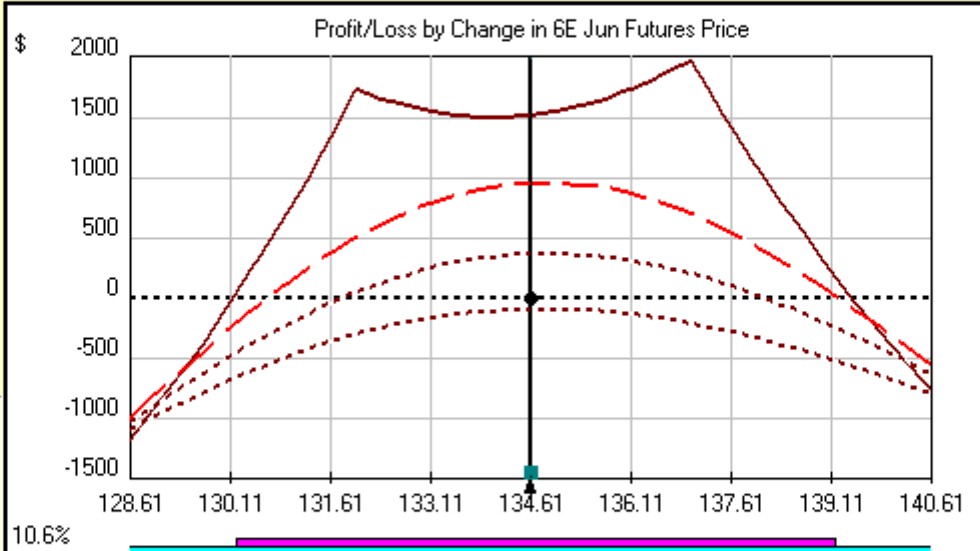
Number of Lines
 Step through dates
 Step through volatilities

Short 1 Apr137 Call, Long 1 Jun140 Call,
 Short 1 Apr132 Put, Long 1 Jun129 Put

Max Proj. Date

 Volty Chg
 Pts
 Amount Provided

 Vertical Axis

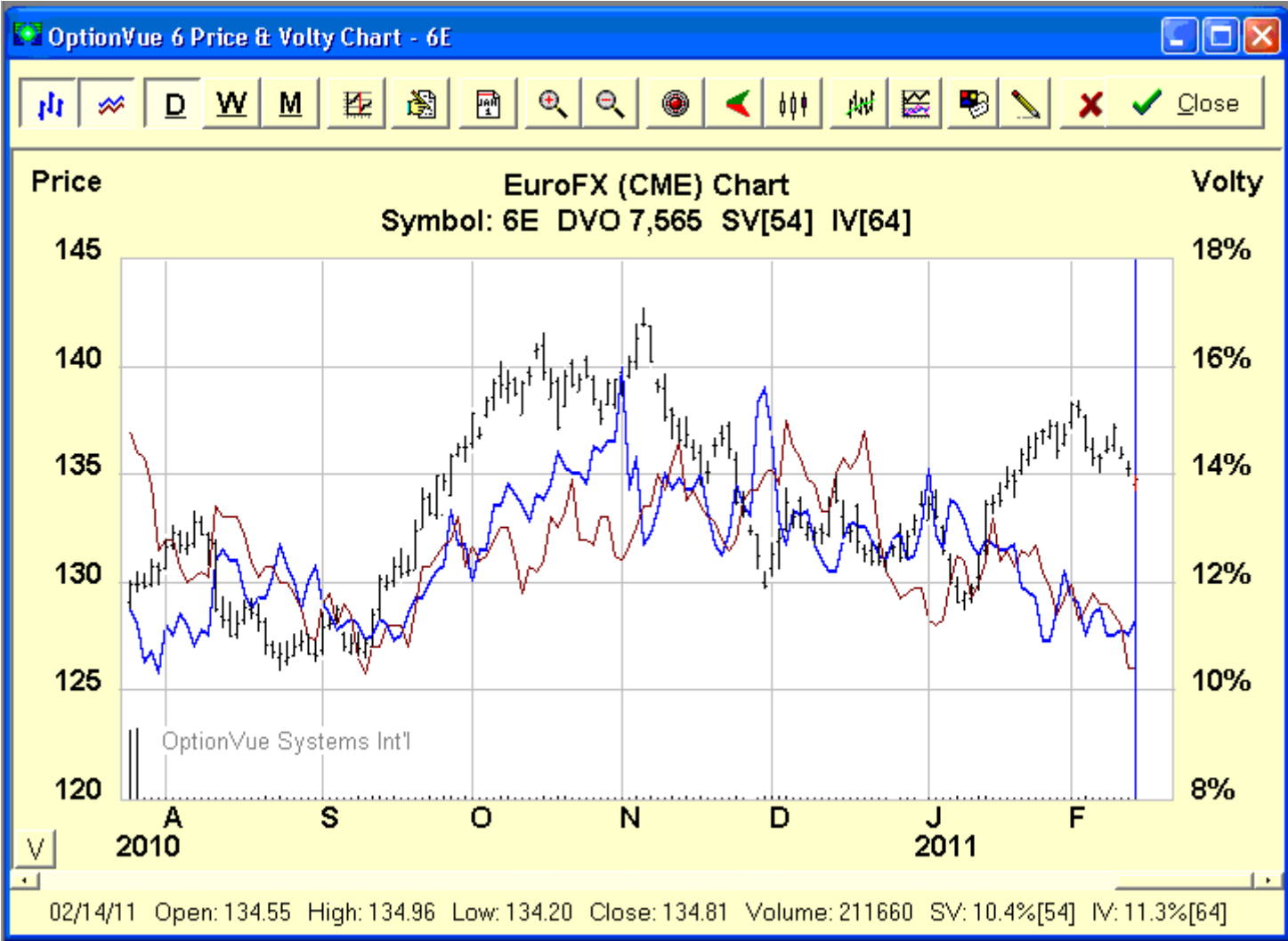


- \$88
 +/- 0
 04-09-11
 03-22-11
 03-04-11
 02-14-11

Mar 22, 2011
 Volty Chg: +1.0%
 Capital: \$1,254
 E.R. \$121

+/- 903	P/L	-1,000	-256	362	787	950	862	525	37	-562
B.E. 130.68(-3%)	Delta	40.44	36.69	27.85	15.69	2.09	-11.17	-22.25	-29.42	-32.07
139.20(+3%)	Gamma	-0.56	-4.41	-7.29	-8.88	-9.21	-8.43	-6.32	-3.25	-0.32
P.P. 66%	Theta	3.70	17.11	29.33	36.96	39.84	37.93	30.61	19.09	6.57
	Vega	260.9	246.5	233.0	229.1	233.9	246.7	268.3	294.6	316.2
	Maint	3,132	2,454	1,631	821	437	990	1,695	2,360	2,899

Wand



3. Gold (GC) – Apr / Jun Strangle Swap

Position / Closing Price @ Feb 14	Entry Cost	Time	Comments
<p>Sell 1 Apr 1400 call @ 1150 Sell 1 Apr 1330 put @ 1130 And Buy 1 Jun 1475 call @ 1030 Buy 1 Jun 1275 put @ 1210</p> <p>1 point = \$1</p> <p>Apr GC @ 1365.1 Jun GC @ 1366.6</p> <p>Greeks: Delta (3) Gamma (0.7) Theta +\$21 Vega +\$63</p> <p>Margin: \$ 2,229</p>	<p>Approx 40 or more points credit</p> <p>\$ (40)</p>	<p>Apr options expire on 3/23 in 36 days</p>	<p>Over the past 3 weeks Gold has retraced about 50% of its prior 4-week decline, and implied volatility has declined sharply from about 19% to 13% over that 7 week period (a 6 pct pt drop).</p> <p>This Apr / Jun strangle swap is structured to benefit over the next 4 weeks from positive time decay and from an anticipated increase in implied volatility of 2 pct pts.</p> <p>The trading plan below identifies trigger levels to adjust in the event the Apr Gold contract either declines to 1340.0 (25.1 pts lower) or rallies to 1380.0 (14.9 pts higher). The adjustments reduce directional risk if Gold trends.</p> <p>Trading Plan / Suggested Risk:</p> <p>Establish the spread for a credit of approximately 40 points with the objective of closing the spread when it widens to a debit of 660 points (700 points better).</p> <p>This objective could be potentially achievable in 29 days (by Mar 15) provided the Apr GC futures contract doesn't decline below about 1336.0 (29.1 points lower) and doesn't rally above about 1389.0 (23.9 points higher).</p> <p>If the Apr GC contract declines to 1340.0, then adjust by: (a) Buying 1 Apr 1400 call (to close) and (b) Selling 1 Apr 1380 call (to open)</p> <p>Close all positions if the Apr GC contract continues to decline to 1320.0 or reverses and rallies to 1370.0.</p> <p>If the Apr GC contract rallies to 1380.0, then adjust by: (a) Buying 1 Apr 1330 put (to close) and (b) Selling 1 Apr 1350 put (to open)</p> <p>Close all positions if the Apr GC contract continues to rally to 1402.0 or reverses and declines to 1355.0.</p> <p>In any event, close all positions no later than Mar 15 in 29 days.</p>

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