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random musings for traders at TD Ameritrade
Fall 2014

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WIN AT LOSING

26/GETTING
SKEWED WITH
VOLATILITY

STOCK-PICKING FOCUS

32/MASTERING
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How To Slay Your Monsters

Trading fears are as normal as a child's fear of monsters. But left unattended, they can cripple your potential as a trader. Here are three big trading monsters and a few tips on how to slay them.

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**10/** How To Slay Your Monsters

The persistent childhood fears of monsters under the bed or in the closet are now keeping you from trading options effectively as an adult. The problem, of course, is more likely in your head, but the fears are real. Let's expose three big monsters and how to slay them.

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Finding good trades is about making good use of your head and your tools to sift through the universe of symbols for the few that are trade-worthy. Now, while we can't help you with your head, thinkorswim® has you covered on the tools.

PLUS:
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A Quick Howdy

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tdameritrade.com**Friends With the Monster**

Maybe pop stars can make peace with the monsters in their heads, but options traders are a different breed. When your P/L is at stake, all kinds of trading boogeymen come out from under the bed and can muck things up. To make peace with them, you'll have to do more than sing. You may have to dance, too.

Not really, but while there are volumes of books written about trading psychology and proper mindset, not much has been directed at aspiring options traders. In our cover story, "How to Tame Your Monsters" on page 10, we'll give you some pointers on how to assuage the fears in

your head and slay the biggest trading monsters for good.

Once you've overcome your fears, to win at trading, you must learn how to lose. That's right, accepting loss as a natural part of a winning strategy can be an important part of your learning curve as a trader. There's a logical approach to take when facing a loss, with the goal being that no single trade should wipe you out. And none of your losses should be the result of complacency. By learning to absorb losses smartly, you're more likely to make better choices in the future. "How to Lose a Trade" on page 18 provides a few pointers on just how to land softly.

And finally, while we're on the subject of logical approaches to trading, when was the last time you took a step back to assess your stock-picking method? Whether you're in a slump, or just looking for new ideas, our special focus on stock selection on page 32 will walk you through a few ideas for navigating the maze of choices.

There may be no such thing as monsters, but the fear of losing is real. No matter how big or small your account size is, the rules are always the same—make smart, informed choices, doggedly guard your capital, and use your tools wherever your head can make a mess of things. If you can accomplish these, soon you'll be kissing those monsters goodnight instead of running from them.

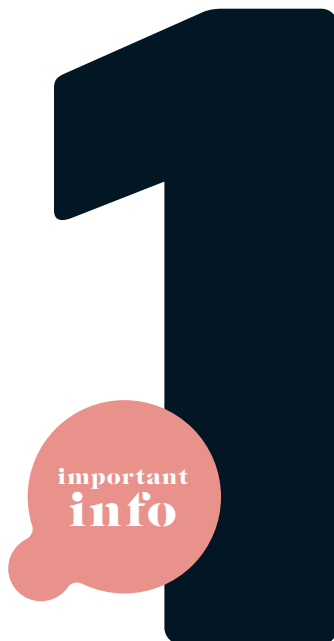
Happy trading!

Kevin Lund,
Editor-in-Chief, *thinkMoney*

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HOW TO SLAY YOUR

AS A KID, MONSTERS WERE EVERYWHERE—IN CLOSETS, UNDER BEDS, YOU NAME IT. AND NOW THEY SEEM TO BE KEEPING YOU FROM TRADING OPTIONS EFFECTIVELY. THE PROBLEM, OF COURSE, IS MORE LIKELY IN YOUR HEAD. BUT IN CASE YOU STILL SEE SCARY THINGS THAT GO BUMP IN THE NIGHT, **LET'S FIGURE OUT HOW TO SLAY THEM.**

MONSTERS

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•
Overcoming Fear

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WORDS BY **MARK AMBROSE** PHOTOGRAPH BY **FREDRIK BRODÉN**

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Overcoming Fear

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M

monsters under the bed. In the closet. In your vegetables. Scary things were everywhere when we were little. As adults, “trading monsters” can get even weirder. Think about options. When asked if they trade options, the average person offers up a resounding “no” with the usual fears: could lose all my money, don’t have enough money, sounds too complicated.

Maybe those sound like excuses, like why you don’t go to the gym or call your mom. (I don’t know why you don’t work out or call Mom. You know you should but still you don’t.) And overcoming excuses can be tough.

But quiet little monsters in the adult mind are different. Childhood phantoms disappear when you turn on the closet light. They disappear when you’re old enough to know that 500-foot dragons can’t fit under the bed. The same is true of trading monsters. Shine a light on them, and poof—they disappear. The best part? You don’t have to vanquish them alone. Lots of handy tools and financial resources can help get you through the most grueling of battles. So strap on your colander helmet and grab your pillow shield. There are some trading monsters that need defeating!

Monster #1: I’ll Go Broke

I’ll admit it: not having mortgage, rent, food, or retirement money can seem pretty scary. And when some people think of options trading, those fears are first to appear.

Defeating the “I’ll go broke” monster requires using strategies that have defined risk built into them. What does that mean? Risk is how much you might potentially lose on a trade. Defined risk is knowing exactly how much you could lose no matter what.

Some strategies entail potential undefined losses—you don’t know how large the loss might be if the stock or market moves against you. Others, like **long or short verticals**, carry defined risk. You’ll know your maximum loss if the stock drops to \$0, or rises infinitely high.

To see how much you might lose on a trade, use the Add Simulated Trades and Risk Profile of the Analysis page on the thinkorswim® platform.

1. Click on the Analyze tab, and go to the Add Simulated Trades sub-tab.
2. Type in a stock symbol, then go to the options chain.
3. Open up an expiration, right-click on a call option, then Sell, then Vertical, to create a simulated short-call vertical trade.
4. Go to the Risk Profile sub-tab for a profit-and-loss graph for that strategy. Look at the graph’s far-right-hand side where the high stock prices are. (Note the loss on this bearish strategy doesn’t exceed a specific amount, no matter how high the stock prices rises. That’s defined risk.)

Even when trading verticals with defined risk, it’s still possible to lose a lot of money. But you can potentially limit your losses by limiting your number of defined-risk trades, so that the loss on all of them combined is potentially only a fraction of your overall account size. In the end, you control how many contracts you trade. So you’re ultimately in charge of how much risk you take. Not your fear. Not your monster.

Score card: Trader 1, Monsters 0.

Monster #2: I Don’t Have Enough Money

We often hear sexy headlines about big investors like Soros or Buffett and think that trading is a billionaire’s game. You might not own a yacht. But you can, for starters, open an account for free and start using the thinkorswim paperMoney® platform to practice “paper trading” to your heart’s content.

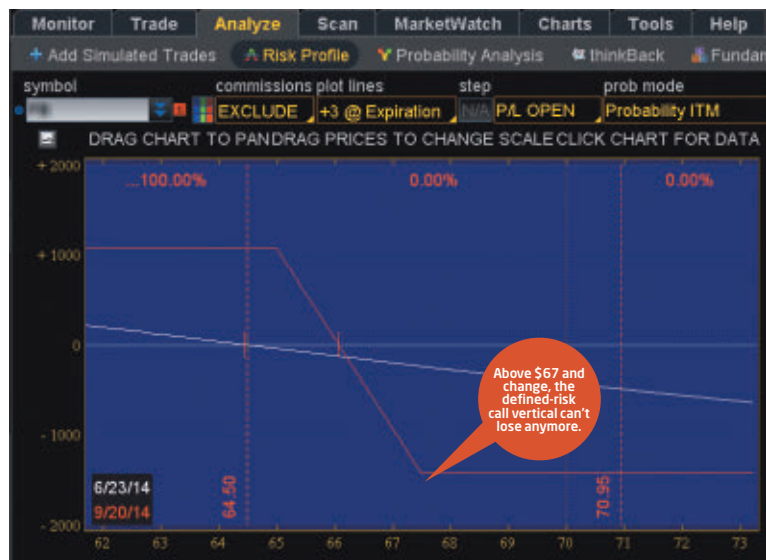


FIGURE 1: Slay the I’ll Go Broke Monster. Defined-risk strategies help limit losses to a specific amount. Here you can see the maximum risk of this short call vertical never increase beyond a stock price above \$67.50. For illustrative purposes only.



of the underlying stock at a time, can make for a low-cost alternative. To start, these are two good reasons why option strategies can in fact make sense for new options traders on a learning curve with limited budgets.

The fine print on risk? Go slow is the answer. You could be an active options trader and put but half of a \$2,000 account in play (hard to do with stocks). For example, using \$1,000 of your working capital, you could trade a vertical, an **iron condor**, a **calendar**, and maybe even a **short put** in a low-priced stock and easily slay Monster #2.

Score card: Trader 2, Monsters 0.

Monster #3: I'm Not Smart Enough

OK, there's a certain amount of jargon that may sound strange and intimidating. We've all been there. No one springs from the womb a full-blown options trader. It takes time. Each trade, each expiration, is potentially a new lesson that makes you smarter. And sure, a lot of the formulas that calculate the numbers you see for options—like the “greeks” and probability numbers—can get complex. In theory, you'd need to be pretty good at math to come up with those kinds of formulas. Luckily thinkorswim does the math for you. You don't need to decipher the formulas to understand what those numbers mean, or more importantly, how to use them.

It's also easy to get turned around with the names of the various strategies. Straddles and strangles. Condors and calendars. Butterflies and back spreads. But

these strategies are more similar than different, and by spending a little time with thinkorswim's educational resources, all the strategies and lingo will start to make sense. In fact, you can get started today with a live training session right on the platform.

In the upper-right-hand corner, click on Support/Chat to open up the Chat window. Click on either the Seminars tab for archives, or the Chat Rooms tab for live shows like Swim Lessons where you'll learn how to use the platform, get tips on picking a smart strategy for the current market environment, and more.

Score card: Trader 3, Monsters 0.

SO NOW YOU KNOW HOW TO BEAT THE THREE biggest monsters that keep most people from trading options. Just remember, whether its gargoyles or three-headed imps that haunt your dreams and dance on your strategies, it's the ones in your head that matter most, even if you're still checking under the bed.

As you know, stocks can get pricey. For example, 100 shares of a \$30 stock would cost you a hefty \$3,000. But remember those defined-risk strategies we employed to slay Monster #1? Contrary to scary rumors, in reality those strategies may not require a substantial investment. You could for instance put up 10 vertical trades in different stocks for a relatively modest amount—typically between 10-20% of the cost of the stock. As well, mini-options on some high-priced stocks that control only 10 shares (versus 100)

SEE
GLOSSARY
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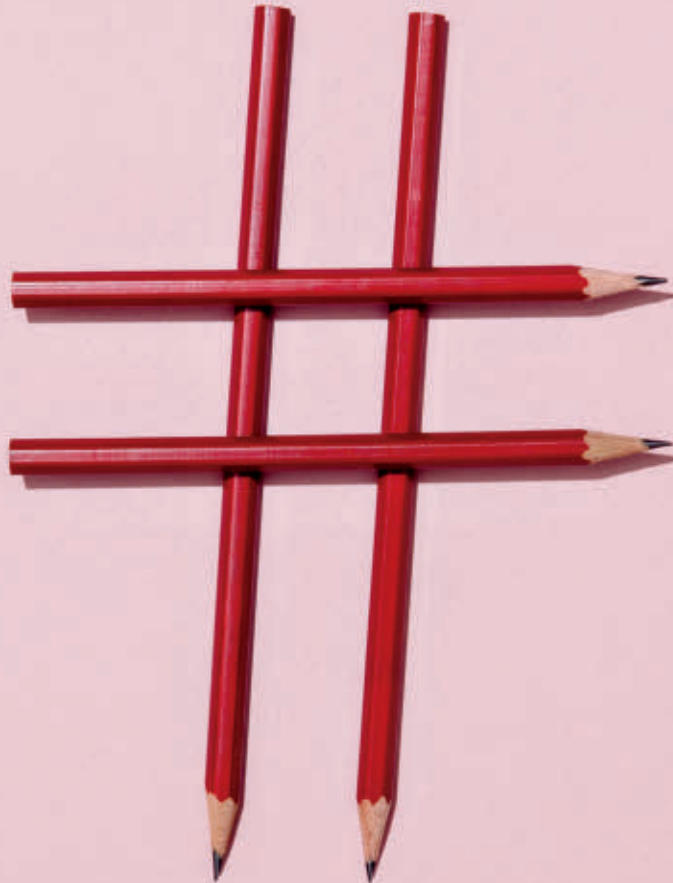
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Love Notes

1ttrs.

Little quips from
you to yours truly

Photograph by
Fredrik Brodén



• **DAngelo Curtis** @SargeCurtis

1:54 PM - May 29, 2014

@TDAmeritrade I was drunk in the bathroom of a karaoke bar with I thought to look into automated bathroom supply makers.

• Mommy, the coast guard called and they said they found daddy's iPod floating in the bay and it was still working and had his [TD]Ameritrade account opened.

Blog post from Wyo34

• Let those who do not care about the bid/ask spread continue to enrich those who do.

David

• If I tweet in the woods and no bears hear it, will it register a post?

Cindy

• I'm not a contrarian. I'm just betting on a correction that never seems to come.

Jake

• I thought air conditioning would cool the planet.

Damn...

Theresa

• Do you have an alert to alert you to a coming alert and one after you've been alerted?

Spencer

• The VIX is so arbitrated by algorithms now it is unable to exhibit fear.

Trent

• I just committed accounticide.

Joe

• I have three degrees, been through law school, and I write and publish books. None of that makes me a better trader.

Thomas

• My magic 8-ball says I got out of the short too early. Damn, the 8-ball was right.

Jackson

• Seasoned trader means you lost a lot of money but bragged about your winners.

Ric



Follow the "experts" on Twitter for all things markets, trading, and thinkorswim:

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@thinkorswim

• I survived the great bear market of 2013. It was the longest four minutes of my life.

Sam

• *One from a semi-famous dude*

Law of Probability Dispersal: Whatever it is that hits the fan will not be evenly distributed.

Roger Angell

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News+Views

A hodgepodge of stuff we thought you should know.

Photograph by
Fredrik Brodén

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Ask The *Suit*

A little Q&A with
Nicole Sherrod,
Managing Director,
Trader Group
at TD Ameritrade

Q: There are so many ways to find trades in thinkorswim®. Are there any features that you particularly favor?

A: Yes! But the one I like the most is as hard to find as a perfect pair of strappy Louboutins in the back-bottom shelf at a Barney's sample sale. It's called **Trade Flash**—a new widget you can apply to your left-hand sidebar. Just click the “+” icon on the lower left-hand corner of the left-hand sidebar and select “Trade Flash.”

The commentary you'll see in Trade Flash comes from a group called Hammerstone*. The dudes and dudettes at Hammerstone have built a network of over 600 individuals, primarily institutional. These traders communicate with one another to share ideas and interpret breaking news. What you see in your Trade Flash gadget reflects their immediate, collective thinking. But grammar mongers beware—these guys couldn't give a flying

theta about punctuation. They're too busy pumping out perspective in the here and now.

I like Trade Flash because it pulls my attention to names I might not have been looking at. At the same time, the note is accompanied with sharp perspective. Just the other day they mentioned that a well-known trader had just entered the pit, who has a reputation for buying in small increments so as to not call attention to the entirety of his gargantuan orders. And wouldn't you know it, the markets started spiking.

Q: What's the best way to get started trading options?

A: I recommend subscribing to Red Option™ at www.redoption.com during your learning curve. The strategists at Red Option will email you detailed trading ideas. They'll reveal their methodology behind the trades, the risk/reward, and their exit strategy. Think of Red Option as training wheels for new options traders. Start by taking their trades and placing them in your paperMoney® account so you can learn how the strategy reacts to living, breathing markets.

When you go to sign up, tell them The Suit sent ya by using coupon code EXPLORE at the checkout. You'll get your first month free.

Q: Best trade ever?

A: Ever? I shouldn't kiss and tell. The best is yet to come...

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industry
spotlight

Google's Power Move Matters (Maybe)

Changing the rules of corporate share issuance, one split at a time.

Words by
Rachel Koning Beals

Illustration by
Joe Morse

Now that the fine print of Google's* stock split has come into focus, the bigger take-away from the share shuffle may be what it reveals about power in Silicon Valley as tech giants square off to gobble up start-ups.

Two years ago Google revealed what would become of one of the most followed and unusual stock splits. The company had tucked a "stock-dividend proposal" into its Q1 2012 earnings report and later explained it wasn't a dividend but effectively a stock split. Investors soon realized it wasn't really a traditional stock split either. It was in fact a form of tax-free dividend.

Common splits are engineered to make expensive share prices more

accessible to retail investors prone to sticker shock. Turns out Google was issuing a third class of "C" stock (under the old ticker GOOG). This was meant to allow the founders to boost corporate control and keep their long-term vision on track. Class A shares now trade under the symbol GOOGL, while Class B shares, which are 56% controlled by the founders, don't trade publicly.

Google's split gives it acquisition currency at a time when competition between the biggest tech companies has intensified. If Google or others have to issue large amounts of stock

GOOGLE'S SPLIT GIVES IT ACQUISITION CURRENCY AT A TIME WHEN COMPETITION BETWEEN THE BIGGEST TECH COMPANIES HAS INTENSIFIED.

for future acquisitions, each rollout risks diluting power at the top.

Google's move also prompted an index re-think. S&P Dow Jones Indices will consider including second publicly-traded share classes that S&P 500 companies offer between now and September 2015. Google insists it's making changes

because of a trend among tech companies offering multiple share classes. According to S&P Dow Jones Indices, ignoring this trend would lead to "difficulty properly representing major market segments while providing sufficient liquidity to accommodate trading and necessary index adjustments," the company said.

What does it mean for retail investors? Separate from a recent lawsuit, Google's move should stir debate about shareholder

power and having a say. As power concentrates at the top (meant to ward off activist investors), it dilutes somewhere at the bottom where individual investors sit. For now, investors anywhere along the food chain may be reluctant to squawk—at least when a stock is performing well.

Important Information

**Symbols used for informational purposes only. For more information on the risk of investing, see page 41, #1.*



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thinkorswim®

TRENDLINE LABELS

If chart drawings are more than pretty pictures to you, take a gander at the new trendline label function available in the Charts tab. These labels, activated from the Drawing property menu, will illustrate your chart drawings' length, slope, price change and more. They can be shown at all times or on hover over.

WATCHLIST SYNCHRONIZATION

This functionality allows you to synchronize some or all of your watchlists across both Live and Paper trading—overwriting, renaming, or merging lists with duplicate names. To activate it, go to the System section of the Application Settings menu.

USER DEFINED PERCENTAGE CHARTS

When comparing apples to oranges (or AAPL to /OJ) it's helpful to start from some common ground. This is where percentage-based charts come in handy. Found in the Charts tab, these charts now have the ability to set the 0% level at to any point on the chart, rather than just the origin point, so that percentage changes can be measured both forward and backward in time.

HOW TO LOSE A TRADE

IN TRADING, LOSSES ARE INEVITABLE. SO LEARNING WHAT TO DO WHEN FACING THEM IS AS IMPORTANT TO A SOUND STRATEGY AS, WELL, WINNING. THE NEXT TIME YOU'RE FACING A LOSS, WHAT CHOICES DO YOU HAVE? QUITE A FEW, ACTUALLY.

WORDS BY **GREG LOEHR** PHOTOGRAPHS BY **FREDRIK BRODÉN**

0



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Trade Management

tdameritrade.com

Paging Dr. House. Dr. Gregory House.

If you've ever seen the hit TV Series 'House, M.D.', you understand the basic plot of doctors trying to narrow down the correct diagnosis based on the symptoms then provide treatment.

Trading is similar. You're the patient. Your symptoms can include anguish, lost money,

frustration. The diagnosis is clear: a trade is losing—perhaps is even on life support. But what's the correct course of treatment? That's the tough question.

When you're facing a bad loss, the idea of 'informed consent' becomes critical. Of course you could just close a trade and move on. But where's the fun in that? Let's look at how to handle a losing trade in three ways, other than giving up, and what those decisions mean for the health of your book.

EXPLORING THE "HOW"

Let's imagine a short-call spread is the patient. This is a specific kind of trade, but these ideas will apply to lots of other fancy trading moves such as calendars, iron condors, and single-option positions.

Imagine that with stock MNKY at \$345, you're looking to sell a call vertical. You sell a 30-day 375/380 call spread for a \$1.00 credit (that's \$4.00 maximum risk, and \$1.00 reward, less transaction costs). Your trade plan dictates that if the trade moves against you and rises to \$2.00, you'll buy the spread to close and limit the loss to \$1.00. Sounds reasonable.

However, the moment of reckoning has arrived. In less than two weeks, the stock has jumped to \$370, and while the spread is still **out of the money** (OTM), it's worth \$2.00 and therefore has a \$1.00 loss. What do you do now?

One: Holding The Trade

Why not? This involves sweating it out, lighting a few candles, and doing a funny dance around your computer while you wait for the trade to move back in your favor. In this example, with a short OTM-call spread, you hope for the stock price dropping, time passing, or a little of both. If neither happens, you may be looking at losses far beyond what you expected. (Ugh.)

The very scary specter of unanticipated losses can hold tremendous implications for your next trade. Sure, in this one trade you might lose more than your plan dictated. But as long as the risk is small and contained it won't get out of hand you think, right?

First, let's hope not. Second, and more to the point, panic is not the best course of treatment. If you learn to tolerate heavier losses on certain trades, you build your white blood count. You'll adjust your longer-term trading to allow for both calmer reactions when you spike a fever and have to manage downturns. And you'll discover a skill for leveraging potentially greater profit when your trades are robust.

One last consideration: if you were looking to put this trade on at the moment of crisis, would you? If there is no rational trading reason to stay in, then close.

On the other hand, if hitting the loss exit coincides with the stock hitting a resistance point, you may consider holding the trade to see if resistance works and the stock reverses.

Pros & Cons of Holding the Trade:

- (+) Possibility of a trade reversing its losses.
- (-) Possibility of greater losses affecting trading attitudes and internal emotional temperatures.

Two: Adjusting The Trade

When you adjust a trade, you alter the existing position by introducing a new option position. Alternatively, you can take options away in order to make the trade new. In the latter case, you believe the trade has a higher likelihood of recovering its losses, getting back to breakeven, or even profiting. When considering adjustments, focus on three things:

1. Never make an adjustment that adds risk to the trade. That's just turpentine on a fire.
2. Understand the "adjusted" position is in fact a new position. What is its risk and reward? Sometimes the new position is worse. Would you put it on if you weren't already in the trade?
3. Have a plan for the new position. When will you actually get out if the new one also fails?

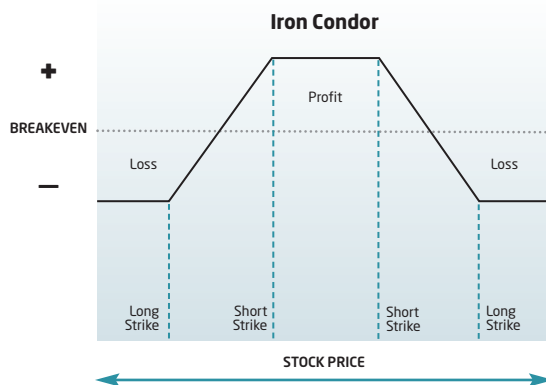


FIGURE 1: "Adjusting" the Trade. By adding another short vertical (this time a put vertical) to the short call vertical, you can mitigate some risk while amplifying the profit potential. For illustrative purposes only.

With the vertical spread in our example, one adjustment could include selling an OTM put spread to turn the position into an iron condor. So you'd turn your short-call spread into a short-iron condor by selling the 350/345 OTM put spread for \$1.00, minus transaction costs. The position now is a short 345/350/375/380 iron condor, and the net credit totals \$2.00, less transaction costs.

By the way, this adjustment adds \$1.00 to the breakeven level. It doubles the maximum profit potential, while reducing the risk to \$3.00 and increases time decay. No-brainer, right?

Not just yet. While the “total risk” of the position has decreased, there are now more places where maximum risk can occur. Ask yourself: if the stock reverses, am I comfortable handling the losses the new position might introduce?

Pros and Cons of Adjusting the Trade

- (+) Gives you time for the trade to work by increasing **theta**. Potentially reduces net risk.
- (-) Creates a theater of risk that didn’t before exist.

Three: Rolling The Trade

Rolling means different things to different traders. But essentially it involves moving a trade from one place to another. That is, closing the original position, then opening a new position with different strikes, with a different expiration, or both.

Consider three options for rolling our hypothetical short-call spread as the stock moves higher:

1. Roll higher in the same month (rolling up).
2. Roll to the same strikes, but in further expiration (rolling out).
3. Do both (rolling up and out).

Trade One shows a simple roll higher. Notice the roll uses a long-call condor order—buying the lower spread then selling the higher spread which will usually trade for a debit. Be aware: debit and commissions can eat away at credits. Rolling for a credit’s ideal, but generally you need to roll to a longer expiration.

Pros and Cons of Rolling Trade 1

- (+) Moves your trade further away from the stock without adding additional time to the trade.
- (-) Costs money.

TRADE 1

EXPIRATION ONE				
Position	Trade	Bid	Ask	Strike
-1	+1	10.90	11.00	375
+1	-1	9.10	9.20	380
	-1	7.60	7.70	385
			6.40	390

For illustrative purposes only.

Trade Two shows a roll out to the next month but keeps strike prices the same. This is traded as a ‘vertical-roll’ order and with current prices is traded for a small 20-cent credit added to the overall trade credit, less transaction costs.

Pros and Cons of Rolling Trade 2

- (+) Traded for a credit, which can reduce risk. Time may be viewed as positive if stock backs off.
- (-) Time is a problem if stock continues higher and theta starts to work against you.

TRADE 2

EXPIRATION ONE				
Position	Trade	Bid	Ask	Strike
-1	+1	10.90	11.00	375
+1	-1	9.10	9.20	380
		7.60	7.70	385
		6.30	6.40	390

EXPIRATION TWO				
	-1	10.10	10.20	375
	+1	7.90	8.00	380
		5.80	5.90	385
		4.00	4.10	390

For illustrative purposes only.

Trade Three demonstrates a vertical rolling up in strike prices and out in time. Depending on time to expiration, available strike prices, and how close the spread is to the stock, this type of roll can trade for a credit, debit, or even money.

Rolling can be costly as the spread approaches the stock price and then goes **in the money**. So if you’re going to violate your trade plan, do it before you lose the chance to roll for a credit. The question to ask yourself: do you want to add time to a trade in exchange for breathing room and a credit?

Pros and Cons of Rolling Trade 3

- (+) Moves your trade further away from the stock and maybe brings a credit.
- (-) Moves the trade further from expiration.

TRADE 3

EXPIRATION ONE				
Position	Trade	Bid	Ask	Strike
-1	+1	10.90	11.00	375
+1	-1	9.10	9.20	380
		7.60	7.70	385
		6.30	6.40	390

EXPIRATION TWO				
	-1	10.10	10.20	385
		7.90	8.00	390
	+1	5.80	5.90	395
		4.00	4.10	400

For illustrative purposes only.

ONLY HINDSIGHT WILL DICTATE THE BEST decisions when your trades are facing a hacking cough and cold sweats. In the main, should you alter your trading plan, always look a few steps ahead. What does “a healed trade” look like? Understand the implications of the new course of treatment. In a nutshell, that’s your “informed consent.”

Important Information

For more information on the risks of trading and options, go to page 41, #1 and 2.

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2015 WALL CALENDAR FOR OPTION MONKEYS

When you're living from one expiration to the next, it can be tough to see the daiquiris for the bananas. This is how option monkeys stay on top of a busy 2015. Pin it up and be informed.

LEGEND



Equity, index, and cash-settled currency options
EXPIRE [3rd Friday every month]



A.M.-settled index options
STOP TRADING



VIX options
EXPIRE [3rd Wednesday every month, except July 22]



Quarterly options
EXPIRE



Exchanges
TAKE DAY-OFF

JANUARY

S	M	T	W	T	F	S
					2	3
4	5	6	7	8		10
11	12	13	14			17
18		20		22	23	24
25	26	27	28	29	30	31

FEBRUARY

S	M	T	W	T
1	2	3	4	5
8	9	10	11	12
15		17		
22	23	24	25	26

MAY

S	M	T	W	T	F	S
						2
3	4	5	6	7	8	9
10	11	12	13			16
17	18	19		21	22	23
24		26	27	28	29	30
31						

JUNE

S	M	T	W	T
	1	2	3	4
7	8	9	10	11
14	15	16		
21	22	23	24	25
28	29			

SEPTEMBER

S	M	T	W	T	F	S
		1	2	3		5
6		8	9	10	11	12
13	14	15				19
20	21	22	23	24	25	26
27	28	29				

OCTOBER

S	M	T	W	T
				1
4	5	6	7	8
11	12	13	14	
18		20		22
25	26	27	28	29

*/January 9

Single New Year's resolution to avoid margin call in 2015 officially broken.

*/February 6

Mary Leakey birthday. Discovered that trading monkeys were not descended from wolves.

*/March 17

Possible arb between book club and trading club in March Madness pools.

*/April 14

Springtime allergies. Excellent reason to stay indoors and trade.

*/May 1

International Workers' Day. Invite hot socialist to give trading a try.

*/June 12

Roll expiring June positions ahead of recovery time from season's first full-body wax.

		MARCH							APRIL						
F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S
 6	7	1	2	3	4	5	6	7				1	2	 3	4
13	14	8	9	10	11	12	13	14	5	6	7	8	9	10	11
 18	21	15	16	 17	 18	 19	 20	21	12	13	 14	 15	 16	 17	18
27	28	22	23	24	25	26	27	28	19	20	21	22	23	24	25
		29	30	 1					26	27	28	29	30		

		JULY							AUGUST						
F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S
5	6				1	 2	 3	4							1
 12	13	5	6	7	8	9	10	11	2	3	4	5	6	7	8
 18	20	12	13	14	15	 16	 17	18	9	10	 11	12	13	14	15
26	27	19	20	21	 22	23	24	25	16	17	18	 19	 20	 21	22
		26	27	28	29	30	31		23	24	25	26	27	28	29
									30	31					

		NOVEMBER							DECEMBER						
F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S
2	3	1	2	3	4	5	6	7			1	2	3	4	5
9	10	8	9	10	11	12	13	14	6	7	8	9	10	11	12
 18	17	15	16	17	 18	 19	 20	21	13	14	15	 16	 17	 18	19
23	24	22	23	24	25	 26	27	28	20	21	22	23	24	 25	 26
30	31	29	30						27	28	29	30	 1		

***/July 2**

Practice trading with nine fingers before nation's birthday.

***/August 11**

Buy new laptop after dropping old one into pool while trading from inflatable mattress.

***/September 4**

At unofficial end of summer, last chance to trade in Speedo.

***/October 19**

Bow head and turn off trade-notification bell for one minute in honor of 28th anniversary of '87 crash.

***/November 20**

Nov expiry coincides with below-freezing temps to send fleas into dormancy.

***/December 26**

Hopeful shorts pray for post-Santa rally hang-over in social media stocks.



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SLV
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Ask the Trader Guy

Rescuing traders,
one question at a time.

Photograph by
Fredrik Brodén

SEE
GLOSSARY
PAGE 40

Q: Why is there a cost to carry built into cash index options when you can't actually buy the index?

T: Options on things that are cash-settled—like SPX, NDX, DJX, for example—don't deliver stock at expiration, but still have a cost-to-carry component built into their prices. The reason is that you can actually go out and buy the stocks that comprise the SPX and use them as a hedge for a short SPX call. You'd need a lot of money to do it, but it's possible. And if the SPX options didn't include the cost of carrying a portfolio

of the underlying 500 stocks, then the institutions that do have the money to buy the SPX portfolio would have risk-free profits.

Q: I've heard of other greeks like vomma and vanna. Are they useful?

T: Option greeks are derivatives of the option pricing formulas themselves, like Black Scholes. And if you have a head for calculus, you can take the 2nd and 3rd derivatives of the formulas and come up with some interesting-sounding metrics. Vomma, for example, is how much **vega** changes when volatility changes. Vanna is how much **delta** changes when volatility changes. But most traders never look at the higher-order greeks because there's only so much you can do with them. If you're an institution with a huge options portfolio, then maybe for example these higher greeks can show you how to reduce your market exposure if volatility



rises. But to most traders, standard greeks offer enough information to manage positions. Understanding how changes in the stock, vol, and time impact on P/L become more important than the impact on individual greeks.

Q: So you're going to a desert island for a year and you can only take a case of Sriracha or Cholula. Which do you choose?

T: Wow, tough call. Sriracha is more vicious with a peppery, vegetable heat.

Cholula is a bit saltier with more piquancy than heat. Both are supremely versatile. You have to think regionally. If the desert island is Tahiti, I'm going with Sriracha. Isla Mujeres, Cholula.

Q: How come at-the-money LEAPS options have a delta higher than .50?

T: If you look at stock options across expirations, you might notice that the delta of the at-the-money option may be less than .50 in near-term expirations, and over .50 in LEAPS options

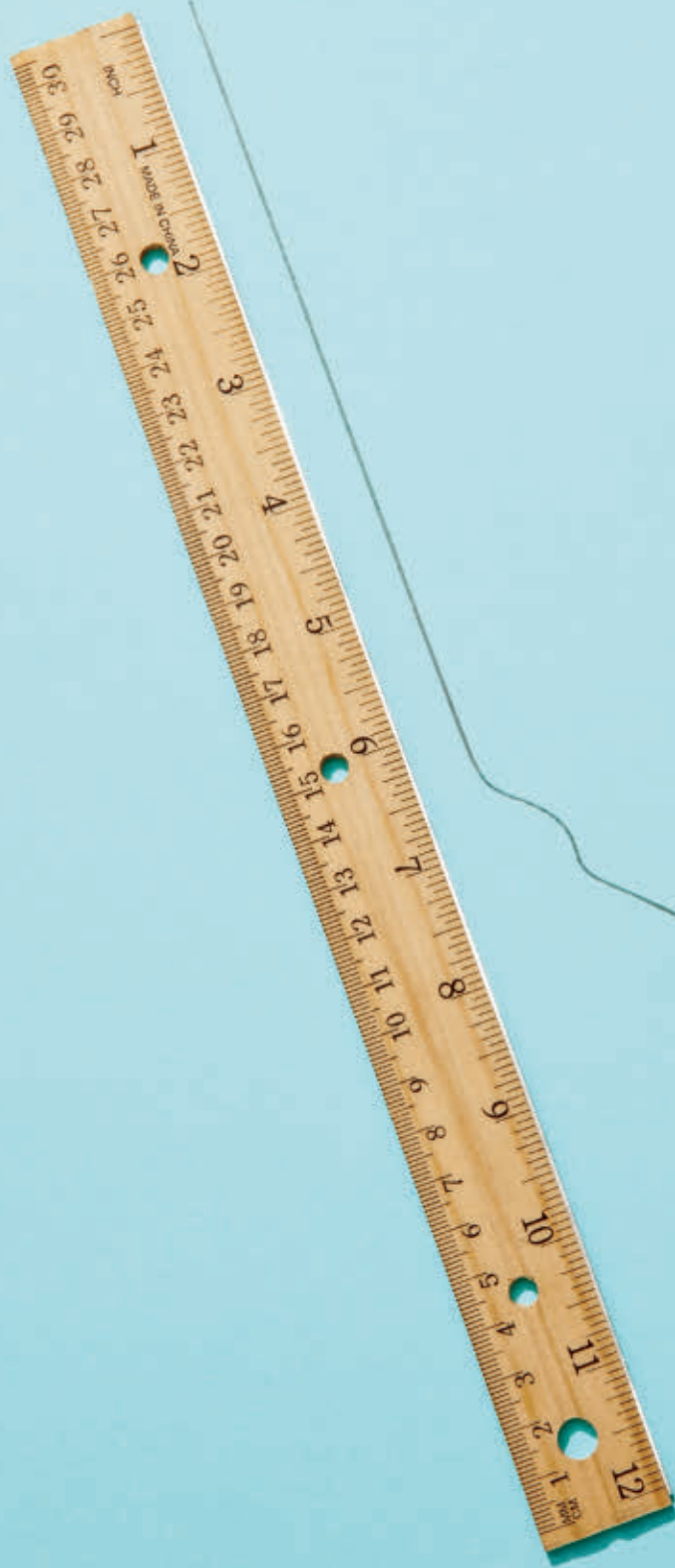
with further expirations. Volatility and the cost to carry impact the delta, but the main reason at-the-money LEAPS have deltas higher than .50 is the log-normal distribution of stock prices. For a stock, the lognormal distribution is bounded by \$0 on the left-hand side, and infinitely high on the right-hand side. That's because stocks can't go below \$0, but could go infinitely higher. Because there is a slightly higher probability of higher stock prices over

time, and that fact is more pronounced the further out you look, the delta of those further-expiration options can be slightly higher than options in nearer expirations.

Q: After I heard AAPL bought Beats by Dre, I bought a pair of Solo2 headphones to support the company. But I'm 85 years old and the bass makes my artificial hip rattle. Should I bring this up at the next shareholders' meeting?

T: I'm not sure if the AAPL board is qualified to offer medical advice. For a quicker solution, add olive oil and deep fried foods to your diet for extra lubrication.

Important Information
Securities mentioned throughout are for educational purposes only. This is not a recommendation to trade any specific security.



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Volatility Skew
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GETTING SKEWED AND LIKING IT

THERE'S MORE TO VOLATILITY THAN NUMBERS. LOOKING AT SKEW—DIFFERENT VOLS FROM ONE OPTION TO THE NEXT—CAN TELL YOU A LOT ABOUT WHAT THE MARKET IS THINKING, EVEN WHEN HEADLINES ARE VAGUE. AND YOU WON'T HAVE TO BE AN OPTIONS TRADER TO "GET IT."

WORDS BY **THOMAS PRESTON** PHOTOGRAPH BY **FREDRIK BRODÉN**



WANT TO HEAR A RIDDLE? What makes options smile, traders frown, flattens when it's quiet, and steepens at expiration? Give up? Vol skew.

Okay, maybe it's not that funny (what do you want, the Sphinx of Thebes?). But volatility skew is an option geek's favorite topic. All of it may sound complicated and it certainly can be. But it can also be simpler and ultimately more useful. Wanna get theoretical with skew? Get yourself a math degree and go to town. But if you want to know how skew works and how you can use it as a trader, read on.

SKIEWING THE MATH SPEAK

Definitions first. The "volatility" (vol) in volatility skew refers to an option's implied volatility. This is not historical vol, or vol based on price changes in an underlying stock or index. When plugged into a theoretical option-pricing model, implied vol makes the option's theoretical value equal to the option's current market price.

Something "skewed" can be asymmetrical or twisted. Here, volatility skew refers to implied vols that are different from one strike to the next, or from one expiration to the next. A vol skew doesn't mean something went wrong. The skew or asymmetry is really an artifact of the option-pricing models themselves, as well as the market's anticipation of what the stock or index might do later on. And that's some of the information you can glean from analyzing the skew.

More, "intra-month" skew refers to implied vols between individual options at different strike prices in a single expiration month. "Inter-month" skew refers to implied vols between different expirations—either at specific strike prices, or an overall estimate of implied vols across all options in a given expiration. For example, an intra-month skew describes the case of the XYZ Dec 85 put with a 25% implied vol, and the

XYZ Dec 85 put with a 28% implied vol. Inter-month skew describes the case of the XYZ Dec 90 put with a 25% implied vol, and the XYZ Jan 90 put with a 30% implied vol.

VISUALIZE SKEW

Vol skew is how the market deals with discrepancies between option prices from theoretical models, and the market expectations of the magnitude of a stock or index's potential price changes. Collective supply and demand and market activity determines an option's fair value. That price equates to an implied vol. The option price moves freely, and implied vol moves up or down accordingly. So, implied vol is simply another way of seeing the market's estimate of whether a stock or index might move enough to make that option **in the money**, and that's what you can see when you look at vol skew.

How do we see it? The thinkorswim® platform gives you two choices. The Trade page shows the skew numerically, while the Product Depth shows the skew graphically.

First, you'll find skew under the Trade tab as in Figure 1.

1. From the All Products sub tab, click on the caret to the left of one of the options expirations in the Option Chain.
2. Select "Impl Vol, Probability, OTM, Delta" from the drop-down menus to see the implied vol of each option.

As you scan across those numbers, you'll see they're not the same for each strike, and that they tend to increase, the further out of the money (OTM) the strike is. Implied option vols at the same strike can also be different in the various expiration months.



FIGURE 1: Skew By The Numbers. If you're a data geek, you can view the skews in thinkorswim® between strikes of the same expiration (intra-month) or strikes between those of two different expirations (inter-month) as shown here with the Aug/Sep options. For illustrative purposes only.

The second way to see skew is under the Charts tab as in Figure 2, right.

1. Click the Charts tab, then the Product Depth sub-tab.
2. In the upper right, click the View drop-down menu and select OTM. You'll see a graph of OTM implied vols for all expirations available for a given stock or index.

Refine the graph by choosing certain expirations or strikes in the Series and Strikes menus, also on the upper-right-hand side.

INTRA V. INTER

With **intra-month skews**, the lowest implied vol is typically the **at-the-money** strike or near it. As Figure 2 also shows, implied vols slope upward and away from the at-the-money, typical for stock and stock-index options. The slope for the implied vols of the lower strikes (corresponding to OTM puts) is also steeper than for higher strikes (corresponding to OTM calls).

Here, the put slope's steepness relative to the call slope is the market's way of saying it sees larger potential down moves—common for stocks. By contrast, given a fear of shortages and higher prices, commodities often have a steeper call vs. put skew. Generally, the steeper the skew, the higher the implied vols of OTM options. And the greater the likelihood the market sees the stock or index reaching OTM strikes.

In equity and equity-index options, the intra-month skew tends to make OTM calls cheaper than puts that are OTM by the same amount. That's normal. **Selling naked puts** on stocks you're thinking of buying anyway can be a good alternative to buying the stock outright if you're willing to take on the risk. The shape of equity skews also tends to give OTM call verticals slightly higher prices than OTM put verticals. And selling call verticals on stocks on which you're bearish can be an alternative to shorting the stock. These short premium strategies can be more attractive when overall vol is slightly higher and the skew is steeper on the put vs. call side.

Important Information

Spreads, Straddles, and other multiple-leg option strategies can entail substantial transaction costs, including multiple commissions, which may impact any potential return. These are advanced option strategies and often involve greater risk, and more complex risk, than basic options trades.

The naked put strategy includes a high risk of purchasing the corresponding stock at the strike price when the market price of the stock will likely be lower. Naked option strategies involve the highest amount of risk and are only appropriate for traders with the highest risk tolerance.

For more information on the risks of investing in options, please see page 41, #1 & 2.



FIGURE 2: Visualizing Skew. If pretty pictures are your thing, view the intra-month skews (each solid color line) or inter-month skews (same strikes between colored lines) under the Product Depth page in the Chart tab of thinkorswim.® For illustrative purposes only.

With **inter-month skew**, the same is also true. If one expiration has a higher vol than another, the market may expect larger price changes coming by the expiration with the higher vol. One caveat: as expiration approaches option **vega**—the change in an option's premium when volatility changes—decreases. The lower the vega, the larger the vol change required to make the option price change. At expiration, when OTM options have low prices and low vegas, their implied vols can be high and make the skew steep. This isn't necessarily the market seeing large price changes at expiration (though it's possible), but rather the confluence of expiration and low vega.

Inter-month skew is often most pronounced on stocks that have upcoming earnings or news announcements. Options in expirations close to news tend to have a higher implied vol because news events could induce stock-price changes. If you want a short premium strategy regardless of a news event, take advantage of higher vol in the inter-month skew—which make calendar and diagonal spreads more attractive. But remember that vol is higher for a reason. And the market anticipates larger price changes around news, which might be detrimental to some option strategies.

ULTIMATELY, THINK OF LEVERAGING skew like playing darts in the wind. To hit the bull's eye, you need to adjust how you throw the dart to account for the strength of a market breeze. Skew is similar. It doesn't necessarily change your bullish or bearish stock bias—you're still looking to hit the bull's eye—but you can pick strategies that help you take advantage of skew's influence on your dart and aim for more successful trades.

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Futures 4 Fun

Futures nuggets
with thinkorswimWords by
Brandon Chapman

ftr.

SEE
GLOSSARY
PAGE 40

Bottom's Up

What can VIX futures say about market bottoms? Apparently a lot.

• Going out on a limb here, but you've probably heard two things about the **CBOE VIX** lately. One, it's a "fear index" that gauges market sentiment. And two, that it's broken.

Broken? Certainly, the index must provide *some* insight into market sentiment, right? But rather than get out-foxed by guessing where the VIX will peak or trough, let's jump right in and talk about "term structure" and backwardation—when the price of a future is lower than the current cash price (spot price) of an underlying asset. Using the S&P 500 as the benchmark, when the market falls, VIX typically rises. As you're watching for signs of capitulation (sellers washing out), you want to be looking for peaks in the VIX at prior highs, or even higher. But will the peak be 18, 22, 30, or some greater value? When analyzing VIX futures, you may find the greater concern isn't about the overall level of the VIX at all. But rather the term structure.

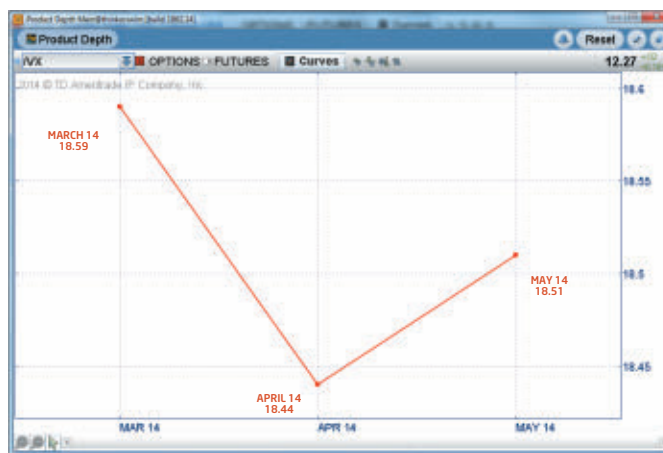


FIGURE 1: Marking a bottom? Looking at distant VIX contracts relative to the current (shown here in thinkorswim) helps find possible bottoms. *For illustrative purposes only.*



Open a Future's Account

For qualified accounts, you'll need Level 3 options approval to trade Futures. Log in to your account at tdameritrade.com. Under the Trade tab, go to Futures & Forex for more information.

THE MARKET'S MORSE CODE

VIX futures (/VX) are made up of various expirations based on where the market thinks the VIX will be at different points in the future. These expirations move up and down together, but generally not at the same rate. As the VIX reaches extreme highs, you'll typically find that the longer expirations move up less, creating a situation where the price of the front month VIX contract may shoot higher than longer expirations.

This type of structure is referred to as "backwardation." Figure 1 is an example of backwardation taken on February 3, 2014 using the "Product Depth" feature on the thinkorswim® platform (located in the sub-menu at the top of the Charts page). You'll notice that the March contract was trading at 18.59 (the first point on the left), which is higher than both April and May which were trading at 18.44 and 18.51, respectively. This indicates that the /VX market is in backwardation and often times marks a near-term low in the market.

OK, so now we have a signal that the market may bottom. The next challenge is how to trade it. While there's more than one way to skin a fox, the leverage-and-reward potential that futures provide can be attractive for some investors willing to assume the risks. For example, consider a simple trading system using the E-mini S&P 500 Index Futures (/ES) as follows:

Entry

1. /VX closing in a backwardation condition AND
2. /ES closes below previous day's close by $> 1 \times 14\text{-day ATR}$

Exit

1. Trailing stop set $1.5 \times 14\text{-day ATR}$
2. Roll to next month with 10 days to expiration

On February 3, 2014 the fourteen-period **Average True Range (ATR)** was at 19.88. With the /VX closing in backwardation, and /ES having closed more than one times the ATR, or \$44 lower than the previous day's close at 1733, an entry was triggered. The trail stop would have been set \$29.82 ($1.5 \times \text{ATR of } 19.88$) below the entry price.

Upon entry, the active contract would be traded and should be rolled to the next month 10 days before expiration. The exit occurred on March 3 when /ES had a correction of more than \$29.82 below the highest priced reached—which triggered the stop and the trade was automatically closed. Over the period from June 2013 through June 2014, this strategy would have produced about five trades that would have lasted on average a little over a month.

THE VIX IS AN ENIGMATIC MARKET animal that many watch but few are really able to hear what it's trying to tell them. The focus on level is part of the picture. But when combined with the /VX term structure you have a powerful tool that may help you stay calm when markets panic.

Important Information

For more information on the general risks of trading, options, and futures, please see page 41, #1-3.

**SPCL
FOCUS**



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33
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**How to Pick
a Stock**
•

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WORDS BY
THOMAS PRESTON
PHOTOGRAPH BY
FREDRIK BRODÉN

FINDING GOOD TRADES ISN'T A CHEST-THUMPING EXERCISE.
IT'S ABOUT MAKING GOOD USE OF YOUR HEAD AND YOUR TOOLS TO SIFT
THROUGH THE UNIVERSE OF SYMBOLS FOR THE FEW THAT ARE TRADE-WORTHY.
WHILE WE CAN'T HELP YOU WITH YOUR HEAD, THINKORSWIM® HAS YOU COVERED ON THE TOOLS.

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How to Pick
a Stock

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HOW DO
YOU FIND A
GOOD STOCK
TO TRADE?

I get that question from two types of traders. The first type is someone who's just starting out, who's learned a few strategies but doesn't quite know in what stocks to employ them. The second is someone who's been trading for a while and who may feel like she's in a trading rut with her current stocks or indices, or overall she just isn't finding enough opportunities.

MASTERING THE UNIVERSE

Naturally we strive to be democratic in life. But to most traders, stocks, ETFs, and indices are not created equally. Among the thousands of choices, some underlying products might present better opportunities or benefits than others, and deserve more of our attention. The trick is honing in on a "custom" short list that you will trade. Finding good trading spots takes time. But focusing on a subset of symbols—what I like to call a "trading universe"—is a way of streamlining and managing the process so it's less overwhelming. Instead of waking up every morning and looking at thousands of symbols, look first to the symbols in your own trading universe—think home planet vs. galaxy.

The idea is to create a list of trading symbols you can monitor without having to continuously search for new ones. If you're new, maybe your universe will have 20 symbols. A veteran trader might have 200. Having a consistent set of symbols you observe day after day will also help you build greater knowledge of your preferred stocks and indices, how they move in relation to each other or the market as a whole, whether they're more or less volatile than

other stocks, or react more or less to news events or government data. Consider a few tips on building your own universe using the Market Watch tools on TD Ameritrade's thinkorswim® platform.

Trading broad indices and sectors. When creating your own universe, you might look first in index products and related ETFs. This can be especially useful for new traders, though this may appear counterintuitive because indices sound big and volatile. But indices, particularly diversified ones like the S&P 500, Nasdaq 100, Russell 2000, and the Dow Jones Industrial Average are often less volatile than individual stocks because they have less unsystematic risk.

In finance, broadly, there are two types of risk—systematic, the risk inherent to all stocks and which diversification can't reduce; and unsystematic risk, the risk particular to an individual stock and which diversification can help reduce. Also, some index ETFs have some of the most liquid and actively traded options, as well as single points between strikes. This can help you uncover defined-risk strategies that have relatively little risk. How do you find these potential opportunities?

1—Refer to Figure 1. Go to the Market Watch page and the Quotes sub-tab.

2—Click the dot next to the word Symbol in the upper-left-hand corner, and select Public from the drop-down menu. This opens up a list of commonly used symbol watch lists.

3—Click Indices to see symbols for index products, and All ETFs to see their symbols.

4—If you're looking at an ETFs list, click on the dot to the left of the word Symbol again, and choose Customize.

5—Select Volume from the list of available column headings, and click the Add Item button to have it displayed on the symbols list. You can click on the Volume column heading to sort the symbols by volume. That will let you see the most actively traded ETFs. There isn't any volume for indices, though.



Monitor	Trade	Analyze	Scan	MarketWatch	Charts	Tools	Help
Quotes	Alerts	Visualize	Rollover Rates	Calendar			
Symbol	Last	Quote Tr...	Net Chng	Bid	Ask	BS	
SPX	16918.19		-28.89	16917.15	16920.37	0	
COMP	1366.9323		-1.1045	N/A	N/A	0	
DJX	169.18		-0.29	N/A	N/A	0	
HUI	9.403		+3.1161	N/A	N/A	0	
MINX	380.38		+1.12	N/A	N/A	0	
NDX	3803.5969		+9588	N/A	N/A	0	
OEX	865.84		-0.31	865.74	865.93	0	
RUT	1184.84		-3.586	N/A	N/A	0	
SOX	634.49198		-92352	N/A	N/A	0	
SPX	1961.44		-1.43	1961.15	1961.72	0	
TNX	26.01		-0.23	N/A	N/A	0	
VIX	11.23		+0.38	N/A	N/A	0	
VXO	9.29		+0.22	N/A	N/A	0	
XAU	100.0002...		+1.541691	N/A	N/A	0	

FIGURE 1: Scan for your universe of stocks using the Quotes page under the MarketWatch tab of thinkorswim. Clicking the dot to the left of the word "Symbol" gives you access to all the public lists as well as lets you customize the different columns to the right of each symbol. *For illustrative purposes only.*



What's That Symbol Again?

If you don't know the ticker symbol for a publicly-traded company, here's a quick shortcut:

1/ Type a "?" in the symbol field in the upper-left-hand corner of the Trade page. That opens the Symbol Table.

2/ Click on the Lookup sub-tab in the Symbol Table

3/ Type in the company name in the field at the top. You'll then see a list of companies that have that name along with their stock symbols.

Trade what you know. The next stock set you might consider for your personal universe are those issued by companies whose products and services you know and like. Consider the things you buy everyday—from breakfast cereal to gas to jeans to staplers. You may have encountered this approach from famous investors like Peter Lynch or Warren Buffet. But there's another important step: make sure the stock and its options are actively traded. No matter how well you understand a company, trading its stock and options is harder if those products are not liquid.

So what do you do if a stock you like isn't liquid? Find a correlated liquid alternative—that is, they often move up and down at the same time. Many stocks

year. (For example, 2013 was the year of electric cars, a solar redux, social media, and products that start with "i" in the name.)

"Hot" stocks can present interesting opportunities, though they can cool off just as fast. Hot stocks may not always be solid long-term investment prospects, and may be suited to shorter-term swing trades that try to capture event-driven price changes. Liquidity is just as important with popular stocks. But there might not always be a correlated sector alternative. Misleading star power? What makes a given stock newsworthy can also make it act less like the other stocks in the sector.

Aside from watching financial news, under the

Market Watch tab you can find stocks getting some attention.

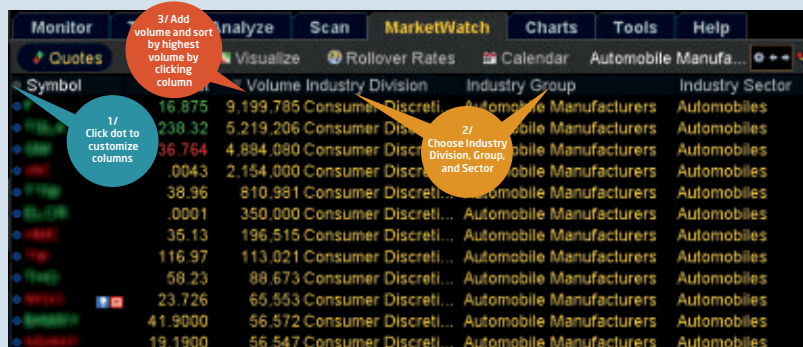


FIGURE 2: Finding Generals Amongst Soldiers. By customizing columns in thinkorswim®, you can find other correlating stocks in the same sector that might be more liquid. *For illustrative purposes only.*

share an industry group with others, and with which they may be correlated. If you're bullish on one stock in a sector, you may likely be bullish on another. So given a choice of a more or less liquid stock in the same sector, it might make sense to choose the more liquid one. How do you find them?

To find other stocks in the same industry as the company you're considering, go to the Market Watch page and the Quotes sub-tab.

- 1—**Type in the stock symbol on a watch list.
- 2—**Click the dot to the left of the word Symbol in the upper-left-hand corner, and select Customize.
- 3—**Add the Industry Division, Industry Group, and Industry Sector columns. That will show you the industry classification and sector for your stock. Then click Add Item(s), then OK.
- 4—**To see other sector stocks, click on the dot to the left of the word Symbol again and click on Industry in the drop-down menu.
- 5—**Find the industry sectors in which your stock appears and click on the final choice. This will show you the other sector stocks.

Trade what's hot. To round out your custom universe, how about the stocks on everyone's lips? If you pay close attention to market news, you'll have a good idea of which stocks are "Wall Street darlings" in any given

HIGH VOL FOR THE PRO

A final stock category that can fit a custom universe may be more appealing to veteran traders. Stocks whose options have higher implied volatility can present opportunities to traders knowledgeable about strategies that benefit from higher vol—such as **short puts, short verticals, short straddles, or iron condors**. These strategies offer different risk-and-reward levels and capital requirements, which is where experience

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How to Pick a Stock

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and knowledge kick in. In fact, your ability to apply these strategies to options can be more important than the actual stock. Liquidity is still paramount even with these stocks, particularly when you're using sophisticated option strategies. But what the company itself does, or your bullish or bearish stock bias, becomes secondary to your skill at applying the strategies.

Sometimes a stock has higher implied vol because its price has been beaten down. And maybe that's an opportunity to buy on the dip. Or maybe that's a chance to sell on momentum. Either way, higher volatility can be fleeting, and these stocks may rotate in and out of your universe on a weekly or monthly basis.

To find these stocks in the Quotes page under the MarketWatch tab, add the Vol Index column as you did previously. (Click dot to the left of Symbol → Customize → select Vol Index → Add Item(s) → OK.) This shows a stock option's overall implied volatility. If you load a Watch List like the Dow Jones Industrial Average you can sort by the Vol Index column to see which of the Dow stocks have options with the highest implied volatility. You might add those to your universe so you can easily scan them as needed.

NOW GO OUT THERE AND BUILD a custom trading universe of symbols. Run your tools once a week to keep your universe fresh. Finding stocks with the methods described here does not guarantee success. But a good personal stock universe lets you quickly scan the market, evaluate trading opportunities more easily, and potentially save a lot of time.



FIGURE 1: Hack Your Universe. In a few steps, Stock Hacker in thinkorswim will help you find a list of stocks to trade with all your criteria. *For illustrative purpose only.*

HOW TO "HACK" A STOCK LIST

If you're already trading equity options, you're halfway there

STOCK

The Scan Page is a powerful tool that searches the data stream of stock and option prices to find symbols that meet fundamental, technical, and option-based criteria of your own creation. To create your universe of symbols, just look at the Stock Hacker

sub-tab. Stock Hacker is a scanning tool that by default looks at all stocks. But you can narrow down the number by clicking the "Scan In" drop-down menu and choosing a Watch List.

You can also use the "Intersect With" menu to scan only for stocks common to

two Watch Lists, like tech stocks in the S&P 500. You'll also see drop down menus for various criteria like price, net change, or volume. From there:

1—Click on the Add Stock Filter, Add Option Filter, or Add Study Filter buttons to create refined scans. The histogram shows you the number of symbols in-between minimum and maximum values for a particular criterion.

2—Next, click on the Show drop-down menu in the middle of the right-hand side of the Stock Hacker tab to determine how many symbols will be displayed.

3—Click the Scan button in the far-right-hand side to see results.

4—Finally, click the disk icon in the far-right-hand side of the scan results to save the symbols in a Watch List.

Important Information

Carefully consider the investment objectives, risks, charges, and expenses of an exchange traded fund before investing. A prospectus, obtained by calling 800-669-3900, contains this and other important information about an investment company. Read carefully before investing.

Spreads, Straddles, and other multiple-leg option strategies can entail substantial transaction costs, including multiple commissions, which may impact any potential return. These are advanced option strategies and often involve greater risk, and more complex risk, than basic options trades.

The naked put strategy includes a high risk of purchasing the corresponding stock at the strike price when the market price of the stock will likely be lower. Naked option strategies involve the highest amount of risk and are only appropriate for traders with the highest risk tolerance.

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Q: What's a good way to measure liquidity in a stock or option?

A: A way to measure stock and ETF liquidity is by trading volume and the width of the bid/ask spreads. The higher the volume, and the narrower the bid/ask spread, the more liquid a stock. Option liquidity can be measured by volume and width of the bid/ask spread, too, as well as by open interest. The higher the open interest, the more liquid an option may be.

Q: Should I have positions in all the symbols of my trading universe?

A: Not necessarily. First, you might not see a trading opportunity in every symbol. Second, you may not have enough capital to do trades in every symbol. And third, you might not be comfortable monitoring positions in all the symbols. Strategy selection, position size, and risk tolerance should drive trading decisions, rather than trying to have positions in a larger number of symbols.

Q: Can I share my universe of symbols with others?

A: Absolutely. If you've saved your universe of symbols in a Watch List, click on the dot next to the word Symbol in the upper-left-hand corner and select Share from the drop-down menu. Select the Watch List you want to share, then create the link to share via

email, Facebook, Twitter or myTrade®.*

Q: How can I see whether two stocks are correlated?

A: Go to the Charts page and the Charts sub-tab, and load up your symbol's chart. Click on the Studies button in the upper-right-hand corner, then Add Study, then All Studies, then C-D. Choose Correlation from the drop-down menu. By default, you'll see the correlation between the chart symbol and the SPX. Click on Edit Studies, and move your mouse over Correlation. Click on the wrench icon, then change SPX to the other stock against which you want to see the correlation in the Correlation with Security field. You'll find a correlation in the lower part of the Charts page.

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Cool Scripts

When thinkorswim® doesn't have it, thinkScript® it

Words by
David "Mr. Script"
Kier

SEE
GLOSSARY
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***SCRIPT SHARE!**

To skip the coding yourself and download David's thinkScript straight into thinkorswim, copy the following link to your browser. <http://bit.ly/volbollinger>

For a refresher on how to use thinkScript, see our Script-Writing Focus in issue 22, Winter 2014.

Bollinger Band-ing Volatility

•

Finding trading signals when volatility hits extremes

• Volatility may not tell you which way is up, but it can point to possible trading signals. Let's create a thinkScript that uses Bollinger Bands to simultaneously analyze price and implied volatility to generate possible trading signals.

Our goal? Let's have thinkorswim color a price bar a different color when the **implied volatility** of the underlying is outside its own set of Bollinger bands—covering 95% of volatility's normal range of movement, or in geek-speak, two **standard deviations**. The indicator is designed to point out time where a trader may want to get long (below the lower band), or short (above the upper band) volatility.

THE SCRIPT*

Cut and paste each of the following lines into your Script editor. But be sure not to include the line numbers.

1. **#Hint: Bollinger Bands for IV**
2. **declare lower;**
3. **declare hide_on_intraday;**
4. **input length = 10;**
5. **input NumberofDevs = 2;**
6. **def data = ImpVolatility();**
7. **def up = close > open;**
8. **def down = close < open;**
9. **def offset = NumberofDevs * Stdev(data, length);**
10. **#The plots that will be drawn on the chart**
11. **plot IV = data;**
12. **plot MidLine = Average(data, length);**
13. **plot UpperBand = MidLine + offset;**
14. **plot LowerBand = MidLine - offset;**
15. **#Changing the color of the chart to make it pop and significant time**
16. **AssignPriceColor(if data > upperBand and down then Color.YELLOW else if data < lowerBand and up then color.BLUE else color.current);**

THE SKINNY

Line 1. Recall that the hash tag “#” creates a note in your script to create hints or to keep track of what you're coding.



FIGURE 1: Bollingers on Volatility. This cool script turns the first bars a custom color after a breach of extreme volatility. *For illustrative purposes only.*

Line 2-3. Next, two declarations. Declaring something applies to how the script can or should be used. In this case, we declare this a lower study, and also hide this on any intraday aggregation.

Line 4. Length defines how many periods should be used to calculate average and standard deviation.

Line 5. NumberofDevs defines the number of standard deviation moves the band will be drawn away from the implied vol.

Line 6. We're defining our data as implied volatility. You can also define up-price bars and down-price bars to be used later.

Lines 7-9. This is perhaps the most important piece of the script, the logic on which Bollinger Bands are based.

Lines 11-14. Here is where we tell the script what to plot. The Midline is simply the average of what we define as data (implied volatility) for our chosen number of periods, then we add the upper and lower bands of the Bollinger band.

Line 16. The kicker. This line checks if the implied vol is above or below the bands around the average. It also monitors if significant moves are on down-price moves or up-price moves. If there's an increase in implied vol and the price moves up, the bar is painted yellow. If implied volatility is above the upper band on a down move, the bar is painted blue. This draws your attention to a point you can define as important. Normally, when a price moves down, implied volatility increases. So an up move in price, above when implied volatility is out of its normal range, indicates a price trend could be changing. This same idea translates to a down move in price when implied volatility remains lower than normal.

Important Information

For general information, see page 41, #1.

OOPS. WE GOOFED

In the "Cool Scripts" column in the last issue (Summer 2014), there was a typo in the sixth line of code. The code should read exactly as follows (including spacing of characters): **ratio.AssignValueColor(if ratio >= ratio[1] then Color.UPTICK else Color.DOWNTICK);**

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gls

The Token Glossary

Terms you might stumble across in this issue.

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Standard deviations

- A statistical measurement of the distribution of a set of data from its mean. For price charts, this is the historical volatility, or the average distance that the price of an asset moves away (deviates) from its mean.

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Short put
(selling naked put)

- A bullish, directional strategy with unlimited risk in which a put option is sold for a credit, without another option (of a different strike or expiration) or instrument used as a hedge. The strategy assumes that the stock will stay above the strike sold; in which case, as time passes and/or volatility drops, the option can be bought back cheaper or expire worthless, resulting in a profit.

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IRON CONDOR

- A defined-risk, short-spread strategy, constructed of a short-put vertical and a short-call vertical. You assume the underlying will stay within a certain range (between the strikes of the short options).

The goal: As time passes and/or volatility drops, the spreads can be bought back for less than the credit taken in, or expire worthless, resulting in a profit. The risk is typically limited to the largest difference between the adjacent and long strikes, minus the total credit received.

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AVERAGE TRUE RANGE

- A measure of volatility that takes into account an equity's range in prices between its true highs and lows versus just its closing prices over a period of time (typically 14 days).

VERTICAL SPREAD

(LONG AND SHORT)

- A defined-risk, directional spread strategy, composed of a long and short option of the same type (i.e. calls or puts). Long verticals are purchased for a debit, while short verticals are sold for a credit at the onset of the trade. Long-call and short-put verticals are bullish, whereas long-put and short-call verticals are bearish. The risk of a long vertical is typically limited to the debit of the trade, while the risk in the short vertical is typically limited to the difference between the short and long strikes, less the credit.

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CBOE VOLATILITY INDEX (VIX)

- The VIX measures the implied volatility ("vol") of the S&P 500 index (SPX) options.

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Implied volatility

- The market's perception of the future volatility of the underlying security, directly reflected in an option's premium. Implied volatility is an annualized number expressed in percent (such as 25%), is forward-looking, and can change.

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found on page:

Gamma

- A MEASURE OF HOW MUCH AN OPTION'S DELTA IS EXPECTED TO CHANGE PER \$1 MOVE IN THE UNDERLYING.

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13 & 31

THETA

- A measure of an option's sensitivity to time passing one calendar day. For example, if a long put has a theta of -.02, the option premium will decrease by \$2.

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Delta

- A measure of an option's sensitivity to a \$1 change in the underlying asset. All else being equal, an option with a 50 delta (also written as .50) for example, would gain a 50 cents per \$1 move up in the underlying. Long calls and short puts have positive (+) deltas, meaning they gain as the underlying gains in value. Long puts and short calls have negative (-) deltas, meaning they gain as the underlying drops in value.

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VEGA

- A measure of an option's sensitivity to a 1% change in implied volatility. For example, if a long option has a vega of .04, a 1% increase in implied volatility will increase the option premium by \$4 on an option with a 100 multiplier.

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IN THE MONEY (ITM)

- An option whose premium contains "real" value, i.e. not just time value. For calls, it's any strike lower than the price of the underlying equity. For puts, it's any strike that's higher.

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AT THE MONEY (ATM)

- An option whose strike is "at" the price of the underlying equity. Like out-of-the-money options, the premium of an at-the-money option is all "time" value.

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found on page:

OUT OF THE MONEY (OTM)

- An option whose premium is not only all "time" value, but the strike is away from the underlying equity. For calls, it's any strike higher than the underlying. For puts, it's any strike that's lower.

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Market volatility, volume and system availability may delay account access and trade executions.

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eat.

Holiday Menu for Traders

Long on delta and short on time this Thanksgiving? That doesn't mean you can't impress your family and friends while keeping your hands on your keyboard. After all, you've got obligations to them, too.

These recipes are the classics, reborn— the trader's "synthetic equivalent" of holiday favorites. And best of all, they can be made in the pre- and post-market hours so cooking doesn't interrupt your trading.



WHAT'S YOUR FAVORITE TRADER-HOLIDAY RECIPE?

You know you have one. Share it by sending to thinkmoney@tdameritrade.com



Turkey

YOU'LL BE PROUD TO SERVE THIS EASY-TO-CARVE BIRD AS THE CENTERPIECE OF YOUR THANKSGIVING FEAST.

Ingredients:
10 packs turkey hot dogs (reserve two dogs)
Mayonnaise

- Mash turkey dogs into shape of turkey body using mayonnaise as needed to retain form. Carefully push the two turkey dogs into the body where the legs would protrude. Cap legs with paper crowns if available.



Stuffing

THIS SWEET N' SAVORY RECIPE IS SCALABLE SO YOU CAN MAKE ENOUGH FOR YOUR HUNGRY CROWD.

Ingredients:
5 loaves white bread
5 loaves wheat bread
2 bottles cola
2 cans salted nuts

- Mix together white and wheat bread in mixing bowl. Mix in nuts. Moisten to taste with cola.



Cranberry sauce

UH, IT'S CRANBERRY SAUCE. DOES ANYONE REALLY CARE IF IT'S HOMEMADE? DON'T FORGET THE CAN OPENER.

Ingredients:
1 can cranberry sauce
Optional: 1 jug orange juice

- Open can of cranberry sauce and serve. For best presentation, turn can over on a plate. Carefully lift can while preserving perfect cylindrical shape. Mash vigorously with fork. For a delightful, citrus-infused twist, pour orange juice reduction on top and stir into cranberry mixture.



Apple pie

THIS THANKSGIVING FAVORITE WILL PROVIDE THE PIECE-DE-RESISTANCE TO YOUR MEAL.

Ingredients:
20 Hostess fruit pies (apple flavor)
1 box graham crackers
1 can Ready Whip

- Arrange graham crackers on bottom and sides of pie plate. Blend fruit pies in blender until evenly chunky. Pour pie mixture onto graham crackers in plate. Make decorative design on top with Ready Whip. Alternate flavors: lemon and cherry.

Article Disclaimers

Important info that you need to know.

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important info



1/ GENERAL DISCLAIMER

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It is not possible to invest directly in an index.

2/ OPTIONS STRATEGIES

Trading options involves unique risks and is not suitable for all investors. Mini-options do not reduce the per share cost or price of options.

Spreads, condors, butterflies, straddles, and other complex, multiple-leg option strategies can entail substantial transaction costs, including multiple commissions, which may impact any potential return. These are advanced option strategies and often involve greater risk, and more complex risk, than basic options trades. Be aware that assignment on short option strategies discussed in this article could lead

to unwanted long or short positions on the underlying security.

The naked put strategy includes a high risk of purchasing the corresponding stock at the strike price when the market price of the stock will likely be lower. Naked option strategies involve the highest amount of risk and are only appropriate for traders with the highest risk tolerance.

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The risk of loss on an uncovered call option position is potentially unlimited since there is no limit to the price increase of the underlying security.

Option writing as an investment strategy is absolutely inappropriate for anyone who does not fully understand the nature and extent of the risks involved.

A covered call strategy can limit the upside potential of the underlying

stock position, as the stock would likely be called away in the event of substantial stock price increase. Additionally, any downside protection provided to the related stock position is limited to the premium received. (Short options can be assigned at any time up to expiration regardless of the in-the-money amount.)

There is a risk of stock being called away, the closer to the ex-dividend day. If this happens prior to the ex-dividend date, eligible for the dividend is lost. Income generated is at risk should the position moves against the investor, if the investor later buys the call back at a higher price. The investor can also lose the stock position if assigned.

The maximum risk of a covered call position is the cost of the stock, less the premium received for the call, plus all transaction costs.

Rolling strategies can entail substantial transaction costs, including multiple commissions, which may impact any potential return. You are responsible for all orders entered in your self-directed account.

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