

Use of options in portfolio management



WARSAW
STOCK
EXCHANGE

May 18-19, 2012

Warsaw Stock Exchange, Trading Floor, level 2

SPEAKER:

Kevin Baldwin
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Institute for Financial Markets

PARTNERS:



DOM MAKLEWSKI
BANKU OCHRONY ŚRODOWISKA S.A.

Agenda

DAY 1, MAY 18

08:30 - 09:00 Registration

09:00 - 11:00

- Quantifying the equity market risk in a portfolio, construction of a futures hedge ratio as a baseline benchmark.
- Introduction to option markets: descriptions of the vocabulary used in trading options; option type, class, series
- Implications for both long and short option positions; max loss, max return; exposure to time passing, exposure to volatility changing

11:00 - 11:15 Coffee Break

11:15 - 13:00

- Quantifying uncertainty; historic and implied volatility, what do they represent? How are they computed? How are they used in practice?
- The "Greeks"; Delta, gamma, theta, vega (kappa), and rho; we know we can make or lose money when conditions change, the Greeks answer the question "how much?"
- Put-Call Parity; the no-arbitrage approach to valuing option prices with other option prices

13:00 - 14:00 Lunch

14:00 - 15:30

- Speculative option strategies: combining long & short options together to create compound positions that emphasize a one type of risk, while mitigating other kinds of risk; focusing on the resulting net price position, net time position, and net volatility position
- Option Strategies: bull & bear vertical spreads, horizontal spreads, ratio call, ratio put

15:30 - 15:45 Afternoon Coffee Break

15:45 - 17:00

- Volatility trading: long and short Straddle, Strangle, OTM Strangle, Guts, effectiveness of making/losing money when volatility changes
- Shorting volatility with limited risk: the butterfly and condor

Agenda

DAY 2, MAY 19

08:30 - 09:00 Registration

09:00 - 11:00

- Synthetics; the basis for portfolio management, if two things are mathematically the same, they should have the same price. How do you identify better prices to buy and better prices to sell?
- Pricing a synthetic bull/bear spread vs. an outright bull/bear spread
- How to find the best price; making calls with puts, making puts with calls; volatility arbitrage; making futures with calls & puts

11:00 - 11:15 Coffee break

11:15 - 13:00

- Hedging with option markets;
- The long put hedge and the resulting synthetic position it creates
- The short call hedge and the resulting synthetic position it creates
- Matching your strategy to your forecast

13:00 - 14:00 Lunch

14:00 - 15:30

- Advanced option hedging topics; static vs. dynamic adjusting trades; do you change the quantity or the strike, or both?
- Over buy, under buy; resulting synthetic position
- Over write, under write; resulting synthetic position
- Synthetic bull/bear vertical spreads
- Zero cost collar/Reverse collar positions
- Synthetic amalgams of previously identified speculative positions; that is, how to turn your stock portfolio into a synthetic bull spread, synthetic horizontal spread, synthetic short strangle, etc.

15:30 - 15:45 Afternoon Coffee break

15:45 - 17:00

- Pulling it all together in the context of portfolio management
- Identifying under/over valued vehicles
- Identifying when two things are the same, yet trade a different prices
- Using options to quickly and cheaply change your portfolio's disposition to price risk, time passing, and volatility risk
- Any position that you desire can be created synthetically with option markets



**Kevin
BALDWIN**

Mr. Baldwin joined the IFM in 2006, and is responsible for developing educational content and programs for live and Web-mediums and managing the instructional staff. He also serves as an instructor for open-enrollment, as well as customized courses for regulators as well as the staff and clients of banks and exchanges including CME Group, Eurex, and Deutsche Bourse. Also in his capacity with the IFM, he serves as adjunct faculty at the University of Illinois Chicago, where he teaches both corporate and standard M.B.A. programs.

Earlier in his career, Baldwin served as the managing director of an Introducing Broker in New York City and worked on the floor of the Chicago Board of Trade (now part of the CME Group). Baldwin was adjunct faculty at the New York University's School of Continuing Education where he taught both Intermediate Securities Analysis and Futures and Options courses. Baldwin holds a B.S. degree from San Jose State University in California, and an M.B.A. from The University of Chicago, Graduate School of Business.