Trading the 'TOS' Method
With
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This course will be:
Six sessions
Every other Thursday, one hour long

- 2 sessions on Entry/Greeks
- 2 sessions on Management
- 2 sessions on Exit

Every session will be structured:

- 30-40 minute presentation
- 20-30 minute Q & A

***please mute your phones to minimize background noise.

Objective: the objective of this six week course is make you more knowledgeable and proficient in the 'tos' trading method. This is not the only way to trade the 'tos' method and is not the Holy Grail. It is just my interpretation based on my instruction, study, and experience trading in this manner. Bottom line: the point is to become more profitable.

Empty your cup

A university professor went to visit a famous Zen master. While the master quietly served tea, the professor talked about Zen. The master poured the visitor's cup to the brim, and then kept pouring. The professor watched the overflowing cup until he could no longer restrain himself.
"It's overfull! No more will go in!" the professor blurted.
"You are like this cup," the master replied, "How can I show you Zen unless you first empty your cup."

Objective of this session: To learn the greeks, so you have the foundation and understanding of the "why" of what 'tos' does.

Why learn the 'tos' method?

- Income strategy for professional traders
- Theta strategy
- % of asset allocation of overall portfolio
- Low risk
- Low anxiety
- High probability
- Consistent profits (or less loss)

Assumptions:

- No one knows what the market is going to do.
- Technical analysis in unreliable
- Best way to make money is to be a seller of options
- Understand price, time, volatility, and the greeks
- Management of risk is key

Price, Time, and Volatility

The three major factors affecting the price of options are price, time, and volatility. The greeks measure the option's, option positions', or overall portfolio sensitivity to price, time, and volatility.

Also, by understanding option positions' sensitivity to price, time, and volatility, we can better understand when and where to put on our positions to minimize risk intrinsically within the position itself and put price, time, and volatility to work for us as much as we can.

Greeks:

The key is to control as many Greeks as possible or have them in your favor.

Delta: (directional risk)

Since it is unclear what the market will do with certainty, it is best to have a market neutral stance. It is impossible to have a 'delta neutral' strategy, because delta is changing all the time. TOS manages delta by continuously adding inventory over time and over several strikes. In this way, they are minimizing their exposure to delta at all times. The IC and put calendar are the bread and butter strategies for TOS.

Gamma: (delta of the delta or curvature of delta)

- Gamma is most significant when an option is far OTM and moves to ATM and when an option is ATM and moves ITM.
- Gamma becomes more pronounced as the option nears expiration.
- TOS sells their short options around 35% probability on I.C. and Verticals, which is a midpoint between far OTM and ATM options.
- TOS closes all position 4-10 days before expiry to mitigate their exposure to Gamma. Gamma grows the most the few days before expiration, so a little move can have a BIG impact on the value of your account.

Theta: (time decay)

Time decay of an option is non linear and accelerates about 4 weeks out from expiry. TOS limits their exposure in the market (risk) and gains the most time decay by entering positions 4-6 weeks from expiry or back month options. TOS sells options to get theta on their side.

***Theta and Gamma have an inverse relationship. As expiration nears, the rate of theta decay increases (positive theta) in the week of expiration, so gamma decreases (negative gamma) and the risk associated with high negative gamma increases.

Vega: (volatility risk)

- Positive Vega (long position) has a positive correlation with the VIX
- +vega + (+ VIX) = more money
- +vega + (- VIX) = less money
- Negative Vega (short position) has an inverse correlation with the VIX.
- - vega + (+ VIX) = less money
- - vega + (-VIX) = more money
- A high VIX inflates the price of options.
- A low VIX contracts the price of options.
- TOS adds IC's on when the VIX is high and then when the market is dropping resulting in inflated premiums which brings in more credit for the IC.
- Short verticals and IC have negative Vega.
- When the VIX drops that helps a negative vega IC position.
- When the VIX is really low, TOS puts on put calendars because calendars have positive Vega, so when the VIX starts to go back up, the positive Vega helps to increase the value of the calendar.

Investopedia.com:
In general, implied volatility increases when the market is bearish and decreases when the market is bullish. This is due to the common belief that bearish markets are more risky than bullish markets.

In addition to known factors such as market price, interest rate, expiration date, and strike price, implied volatility is used in calculating an option's premium. IV can be derived from a model such as the Black-Scholes Model.

Wikipedia.com:
Volatility instruments are financial instruments that track the value of implied volatility of other derivative securities. For instance, the CBOE Volatility Index (VIX) is calculated from a weighted average of implied volatilities of various options on the S&P 500 Index futures.

Yeah…so what?

Examples:

- Call
- Put
- Vertical (put and call)
- Iron Condor
- Put Calendar
- Butterfly