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Chapter 1 : The Option Trader's Guide To Probability, Volatility And Timing - PDF Free Download

The Option Trader's Guide to Probability, Volatility, and Timing (A Marketplace Book) - Kindle edition by Jay Kaeppel. Download it once and read it on your Kindle device, PC, phones or tablets.

Or why your option prices can be less stable than a one-legged duck Some traders mistakenly believe that volatility is based on a directional trend in the stock price. By definition, volatility is simply the amount the stock price fluctuates , without regard for direction. As an individual trader, you really only need to concern yourself with two forms of volatility: Unless your temper gets particularly volatile when a trade goes against you, in which case you should probably worry about that, too. And if there were wide daily price ranges throughout the year, it would indeed be considered a historically volatile stock. Historical volatility of two different stocks This chart shows the historical pricing of two different stocks over 12 months. However, the blue line shows a great deal of historical volatility while the black line does not. Like historical volatility, this figure is expressed on an annualized basis. Where does implied volatility come from? That drives the price of those options up or down, independent of stock price movement. Implied volatility can then be derived from the cost of the option. In fact, if there were no options traded on a given stock, there would be no way to calculate implied volatility. Implied volatility and option prices Implied volatility is a dynamic figure that changes based on activity in the options marketplace. Usually, when implied volatility increases, the price of options will increase as well, assuming all other things remain constant. Conversely, if implied volatility decreases after your trade is placed, the price of options usually decreases. How implied volatility can help you estimate potential range of movement on a stock Implied volatility is expressed as a percentage of the stock price, indicating a one standard deviation move over the course of a year. Obviously, knowing the probability of the underlying stock finishing within a certain range at expiration is very important when determining what options you want to buy or sell and when figuring out which strategies you want to implement. Market makers use implied volatility as an essential factor when determining what option prices should be. Usually, at-the-money option contracts are the most heavily traded in each expiration month. So market makers can allow supply and demand to set the at-the-money price for at-the-money option contract. Then, once the at-the-money option prices are determined, implied volatility is the only missing variable. Once the implied volatility is determined for the at-the-money contracts in any given expiration month, market makers then use pricing models and advanced volatility skews to determine implied volatility at other strike prices that are less heavily traded. You can solve for any single component like implied volatility as long as you have all of the other data, including the price. However, watch out for odd events like mergers, acquisitions or rumors of bankruptcy. If any of these occur it can throw a wrench into the monkeyworks and seriously mess with the numbers. Using implied volatility to determine nearer-term potential stock movements As mentioned above, implied volatility can help you gauge the probability that a stock will wind up at any given price at the end of a month period. How can implied volatility help my shorter-term trades? The most commonly traded options are in fact near-term, between 30 and 90 calendar days until expiration. Quick and dirty formula for calculating a one standard deviation move over the life of an option Remember: This tool will do the math for you using a log normal distribution assumption. Then, once you have made your forecasts, understanding implied volatility can help take the guesswork out of the potential price range on the stock. In the stock market crash of , the market made a 20 standard deviation move. In theory, the odds of such a move are positively astronomical: But in reality, it did happen. And not many traders saw it coming. Because option trading is fairly difficult, we have to try to take advantage of every piece of information the market gives us. As you know, a stock can only go down to zero, whereas it can theoretically go up to infinity. Downward movement has to stop when the stock reaches zero. Normal distribution does not account for this discrepancy; it assumes that the stock can move equally in either direction. In a log normal distribution, on the other hand, a one standard deviation move to the upside may be larger than a one standard deviation move to

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the downside, especially as you move further out in time.

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Chapter 2 : Ebook The Option Trader's Guide To Probability, Volatility, And Timing

A Marketplace Book THE OPTION TRADER'S GUIDE TO PROBABILITY, VOLATILITY, AND TIMING Jay Kaoppel John Wiley & Sons, Inc.

The White Coat Investor: Dahle has offered bloggers a copy of the book to review, presumably for free, my own review is based on a copy I bought shortly after the book was published. In essence, my opinion has not been influenced by any sense of gratitude by being offered a free book. This book is an easy to read, high-yield book with much practical knowledge that medical students, resident doctors, physicians in fellowship training, and junior faculty and attending physicians will find very useful. Currently offered on Amazon. The Big Squeeze How increasing tuition, decreasing reimbursement, and regulatory hassle are trying to ruin your life Chapter 2: Millionaire by 40 How to have a seven-figure net worth five to ten years out of residency Chapter 3: Medical School and Your Wealth How picking the right school and specialty can affect your bottom line Chapter 5: Residency and Your Wealth Which financial chores you must do as a resident Chapter 6: The Secret to Becoming a Rich Doctor How to get out of debt, buy your dream house, and hatch a nest egg within five years of residency graduation Chapter 7: The Motorway to Dublin How to quit throwing your money away on stupid investments Chapter 9: Getting Off the Motorway What you need to know about investing in real estate, whole life insurance, private investments, and your own house Chapter Paying the Help How to get good advice for a fair price Chapter Estate Planning Made Simple How to avoid estate taxes, protect your heirs, and avoid probate Chapter Income Taxes and the Physician Why you pay too much in taxes and what to do about it Chapter Choosing a Business Structure Why incorporating will not protect you from malpractice suits or save you much in taxes Chapter Enjoying the Good Life How to quit worrying about your finances Chapter The Mission of The White Coat Investor How to help doctors quit getting ripped off What The White Coat Investor Book will Teach You James Dahle, MD has walked the walk and faced the same challenges that medical students, residents, physicians, dentists, and other high-income professionals face, and offers some very practical insights on how such professionals can prevent the financial problems that most assume are inevitable. This book will teach medical students how to graduate from medical school with as little debt as possible, and minimize and pay off student loans quickly after residency. It will teach residents how to acquire the right types of insurance that are least expensive earlier, and how to decide when to buy a house. And, for young attending physicians, it will help them learn about the different types of investments and how they may become a millionaire within five to ten years of residency. In addition, it has many tips on a variety of topics such as how to minimize the effects of taxes, and how to find and choose a financial advisor. However, to his credit, Dr. Dahle provides many references at the end of each chapter that interested readers can pursue at their leisure. Although, in discussing the investing, he discusses types of risk, diversification and investment expenses, it is not an in-depth discussion. Furthermore, he does not discuss specifically how to pick investments or which funds to pick; rather he gives general comments on why chasing specific mutual funds or fund advisors is not a good idea. Readers interested in a greater discussion of the effects of expenses on fund performance or how to choose which type of fund might be interested in reading *The Lies about Money* by Ric Edelman. Readers interested in taking their financial future in their own hands, and delving into investing in the stock market would be well served to learn about options trading and how combining stock options with investing in stocks can make their stock market investments safer. In conclusion, the White Coat Investor:

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Chapter 5 : Ebook The Option Traders Guide To Probability Volatility And Timing

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Implied volatility represents the consensus of the marketplace as to the future level of stock price volatility or the probability of reaching a specific price point. The Greeks represent the consensus of the marketplace as to how the option will react to changes in certain variables associated with the pricing of an option contract.