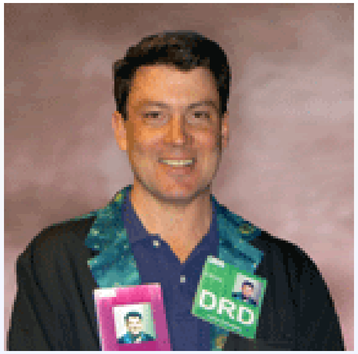

Dan Sheridan

Understanding and Applying the Concept of Implied Volatility

May 3, 2011

Sheridan Options Mentoring, Inc.
www.SheridanMentoring.com

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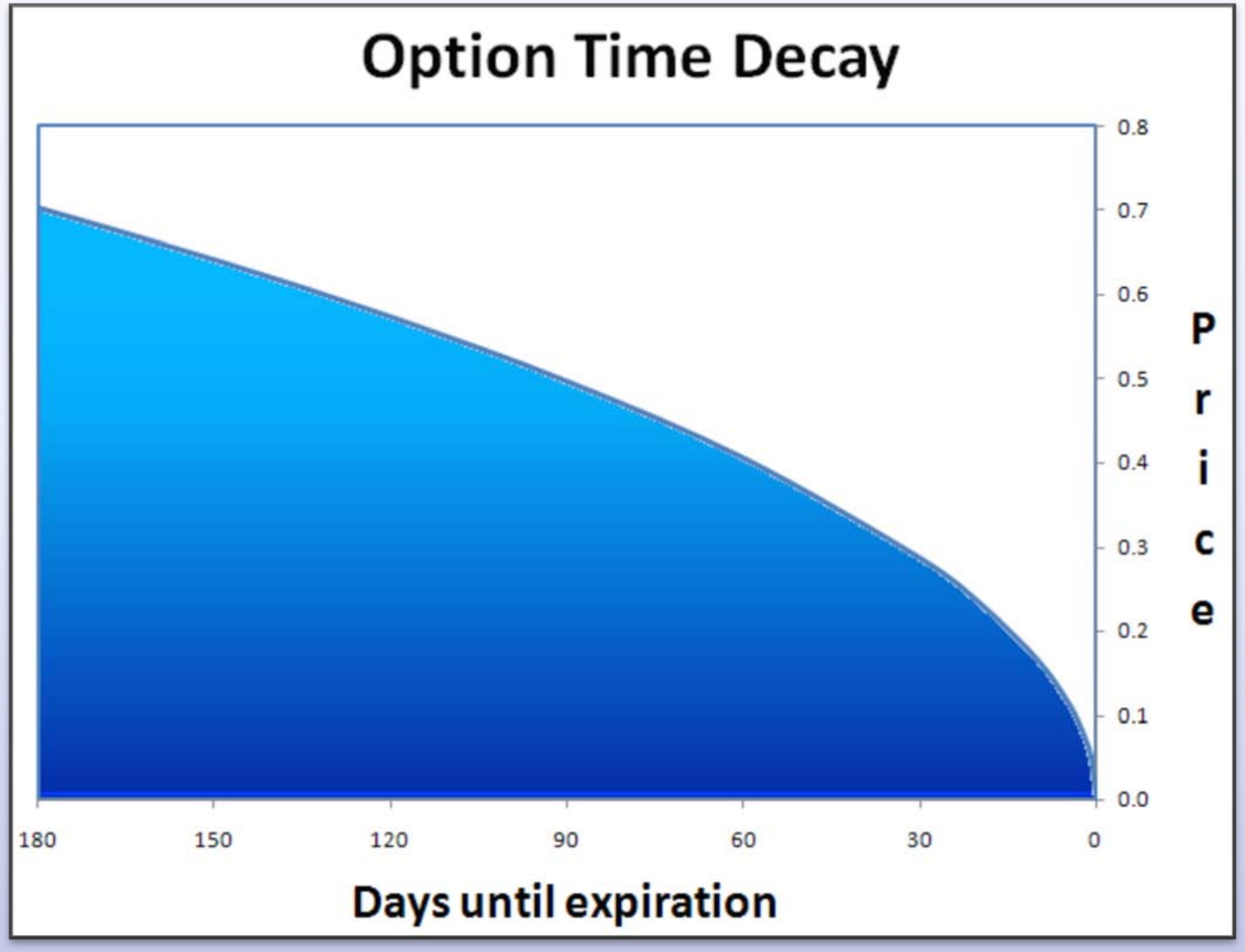
Download The Presentation Slides!

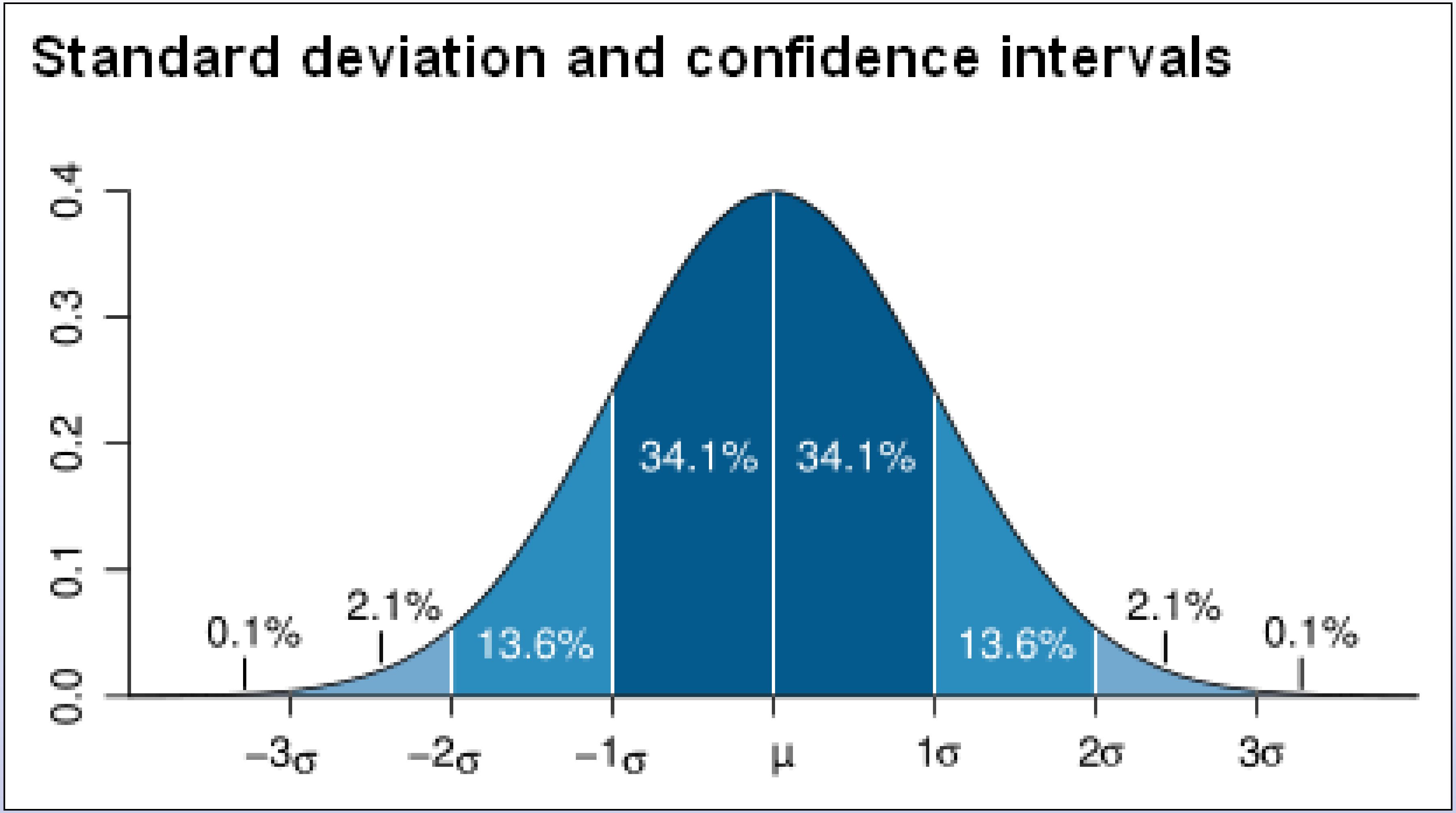
You can download the slides here:

http://www.sheridanmentoring.com/x/IB11

Insurance Company



Normal Distribution Bell Curve



FREE STANDARD DEVIATION CALCULATOR AT:
http://www.sheridanmentoring.com/x/sigma

Standard Deviations

Dan's Short Cuts

Time	Divide by	Multiply by
1 Day	19.112	0.05232
1 Week	7.223	0.13844
2 Weeks	5.108	0.19578
17 Days	4.635	0.21574
31 days	3.433	0.29133

$$\text{Price} \times \text{Volatility} \times \sqrt{\frac{\textit{Calendar days}}{365.25}}$$

$160 Stock with 16% IV

Time	1 SD	Range
26 Days	$6.83	$153.17 - $166.83
54 days	$9.84	$150.16 - $169.84

Download FREE Standard Deviation Calculator

http://www.sheridanmentoring.com/x/sigma

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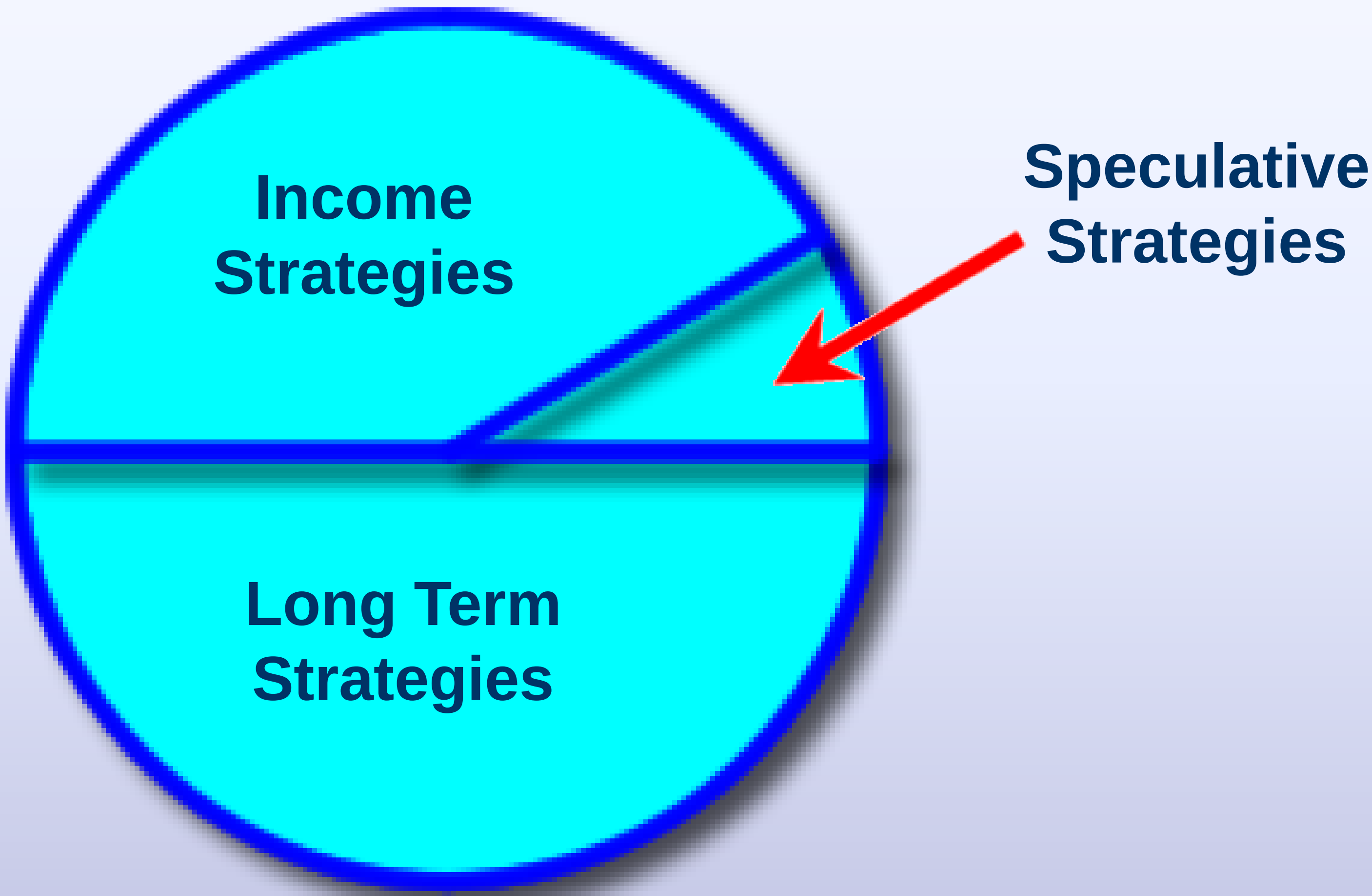
Portfolio Plan



Portfolio Plan

Long Calls/Puts,
Diagonal Spreads
OTM Butterflies
Vertical Spreads
Directional Calendars
Long Straddles

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VIX 15 to 19
60% Long VEGA and 40% Short VEGA

- **$10,000 Portfolio $1000 in cash for adjustments**
- **$5400 in Calendars and Double Diagonals**
- **$3600 in Condors, credit spreads and Butterflies**
- **3-5 trades per month**

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OPTIONS MENTORING

VIX 20 to 25
60% Short VEGA, 40% Long VEGA

- $10,000 Portfolio $1000 in cash for adjustments
- $4050 in Calendars and Double Diagonals
- $4950 in Condors, credit spreads and Butterflies
- 3-5 trades per month

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VIX 25 to 30
70% Short VEGA and 30% Long VEGA

- **$10,000 Portfolio $1000 in cash for adjustments**
- **$3600 in Calendars and Double Diagonals**
- **$5400 in Condors, credit spreads and Butterflies**
- **3-5 trades per month**

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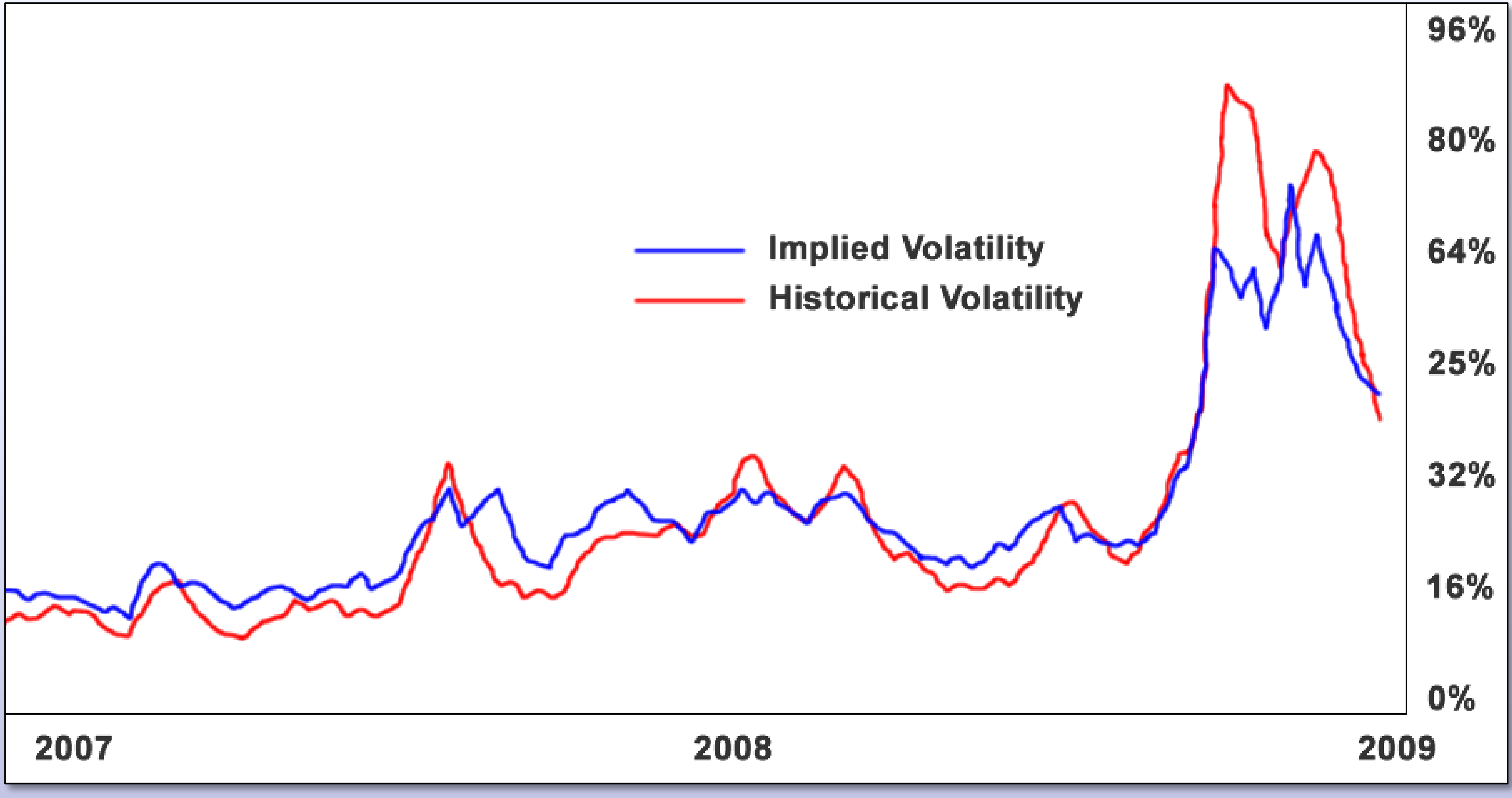
Implied Volatility

- **The Volatility percentage that justifies the market price of an option**

Implied Volatility



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Implied Volatility

XYZ Price: $439.98

	FEB(36)	
Options	Price	IV
440 Calls	$28.60	52.4%

What IV to Input to Get $28.60?

XYZ Price: $439.98

	FEB(36)	
Options	Price	IV
440 Calls	$16.60	30.5%

Do we need Higher IV to get $28.60?

XYZ Price: $439.98

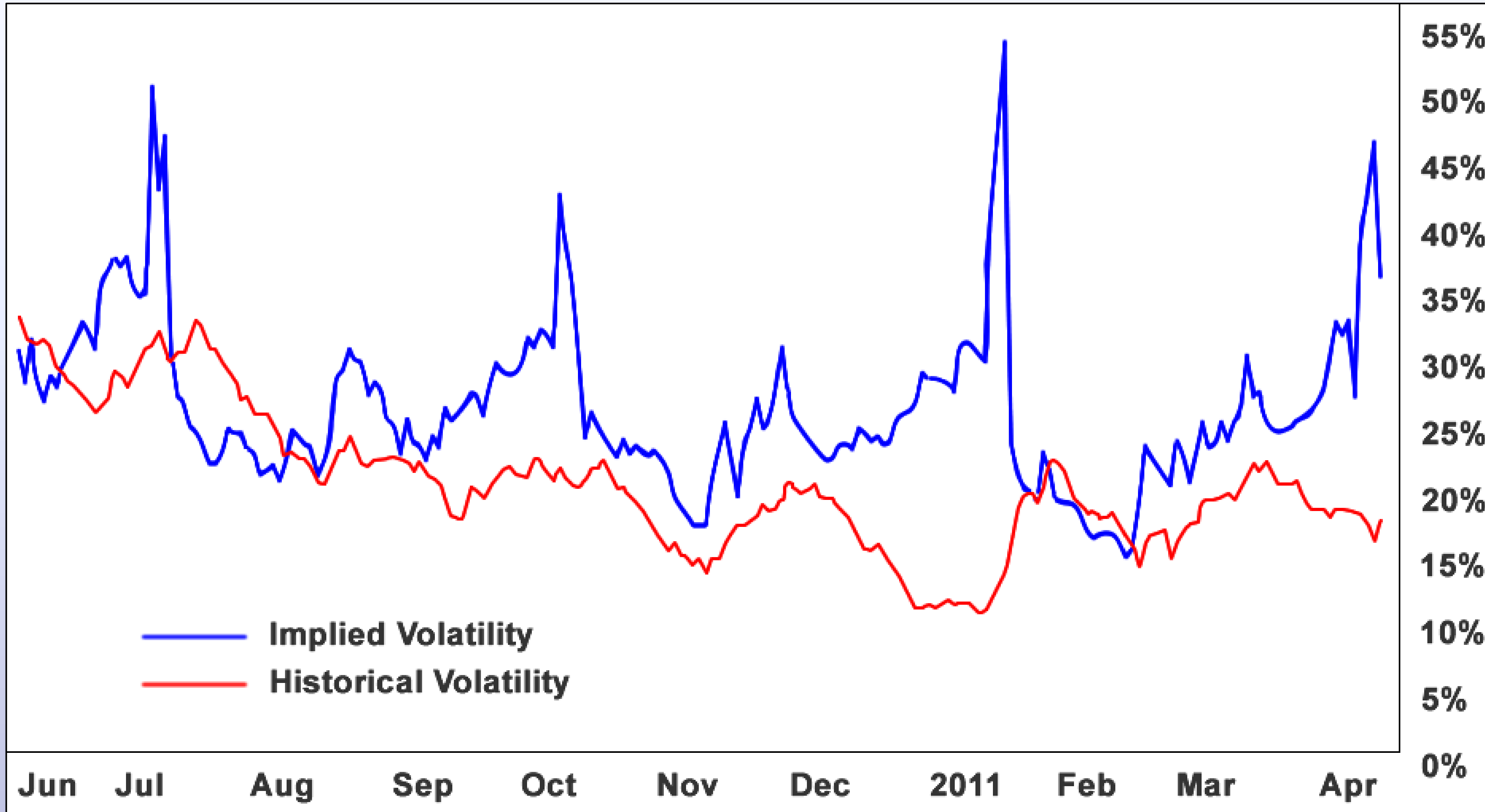
	FEB(36)	
Options	Price	IV
440 Calls	$23.60	43.2%

GOOG Price Chart
Earnings Dates Show in Red

Date: 4/14/2011 Price: $578.52

GOOG Volatility Chart

Date: 4/14/2011 Price: $578.52



GOOG At-the-Money Calendar

Date: 4/14/2011 Price: $578.52

	APR(2)				MAY(37)			
Options	Price	IV	Vega	Trade	Price	IV	Vega	Trade
580 Calls	$12.30	76.3%	17.1	-10	$21.40	30.0%	73.4	+10

Delta	41.5
Gamma	-6.4
Theta	3,514
Vega	563.7
Debit	9,100

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GOOG At-the-Money Calendar

Date: 4/14/2011 Price: $578.52

	MAY(37)				JUN(65)			
Options	Price	IV	Vega	Trade	Price	IV	Vega	Trade
580 Calls	$21.40	30.0%	73.4	-10	$27.10	28.6%	97.3	+10

Delta	8.6
Gamma	-1.6
Theta	85.1
Vega	238.5
Debit	5,700

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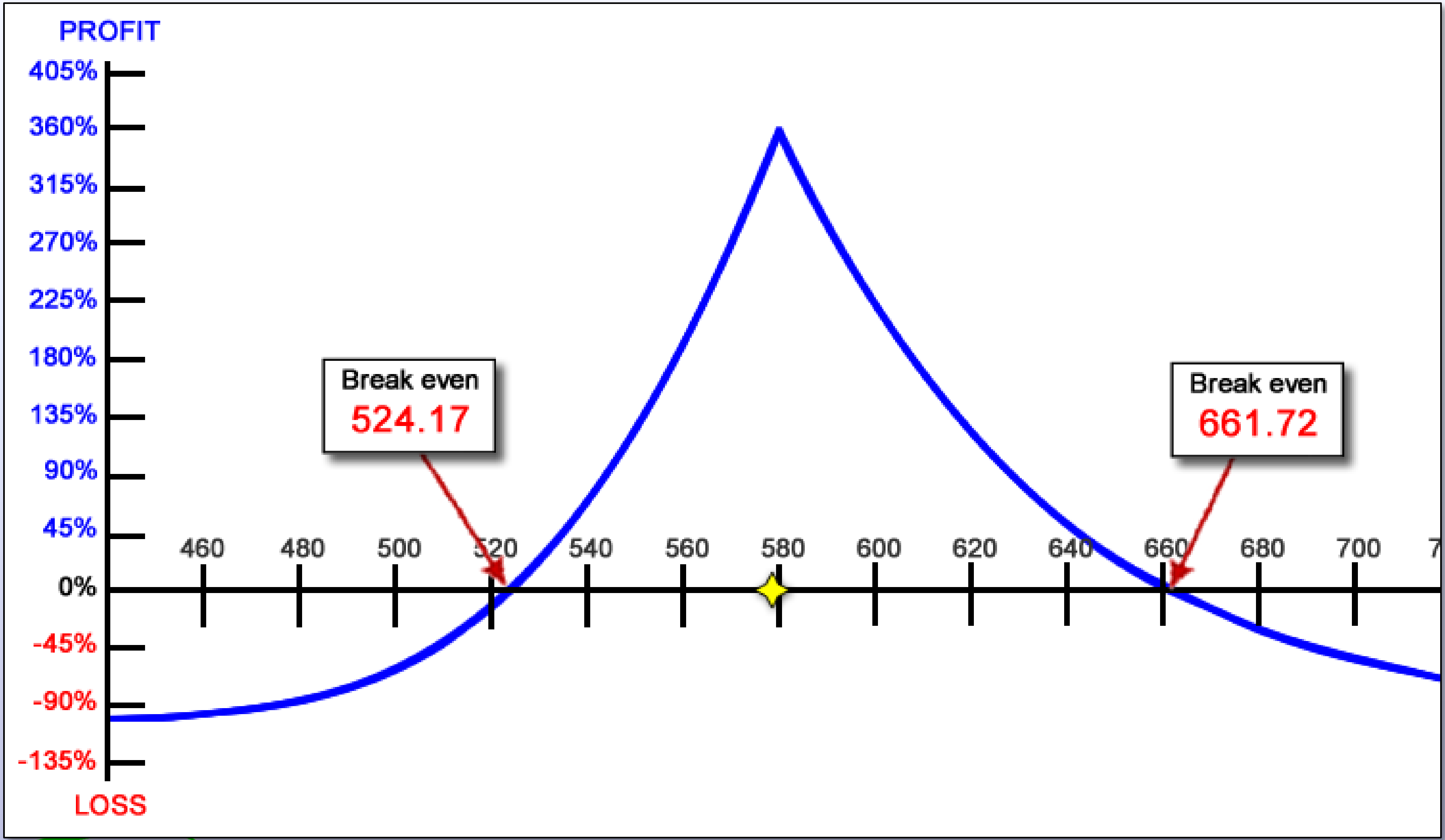
GOOG At-the-Money Calendar

Date: 4/14/2011 Price: $578.52



Implied Volatility of a spread

XYZ Price: $91.54

	FEB(37)		APR(93)	
Options	Price	IV	Price	IV
85 Calls	$11.50	69.8%	$14.50	61.8%

What Volatility will get us $3?

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Implied Volatility of a spread

XYZ Price: $91.54

	FEB(37)		APR(93)	
Options	Price	IV	Price	IV
85 Calls	$9.37	49.1%	$12.37	49.1%

Formula for Implied Volatility of a Spread =
Love Option IV minus Difference between IV's times 1.5

Example: 61.8% - 1.5 x (69.8-61.8) = 61.8 – 12 = 49.8%

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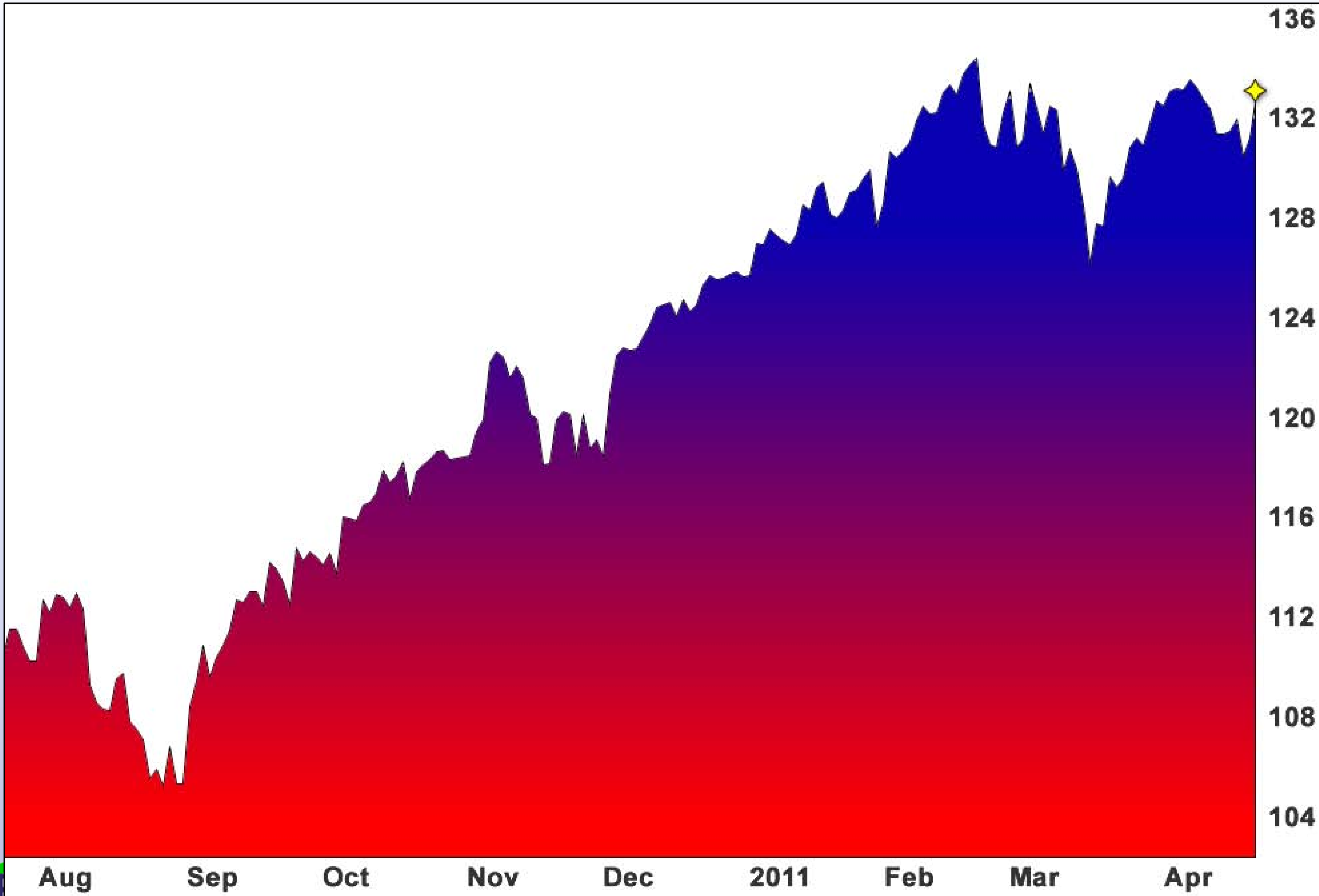
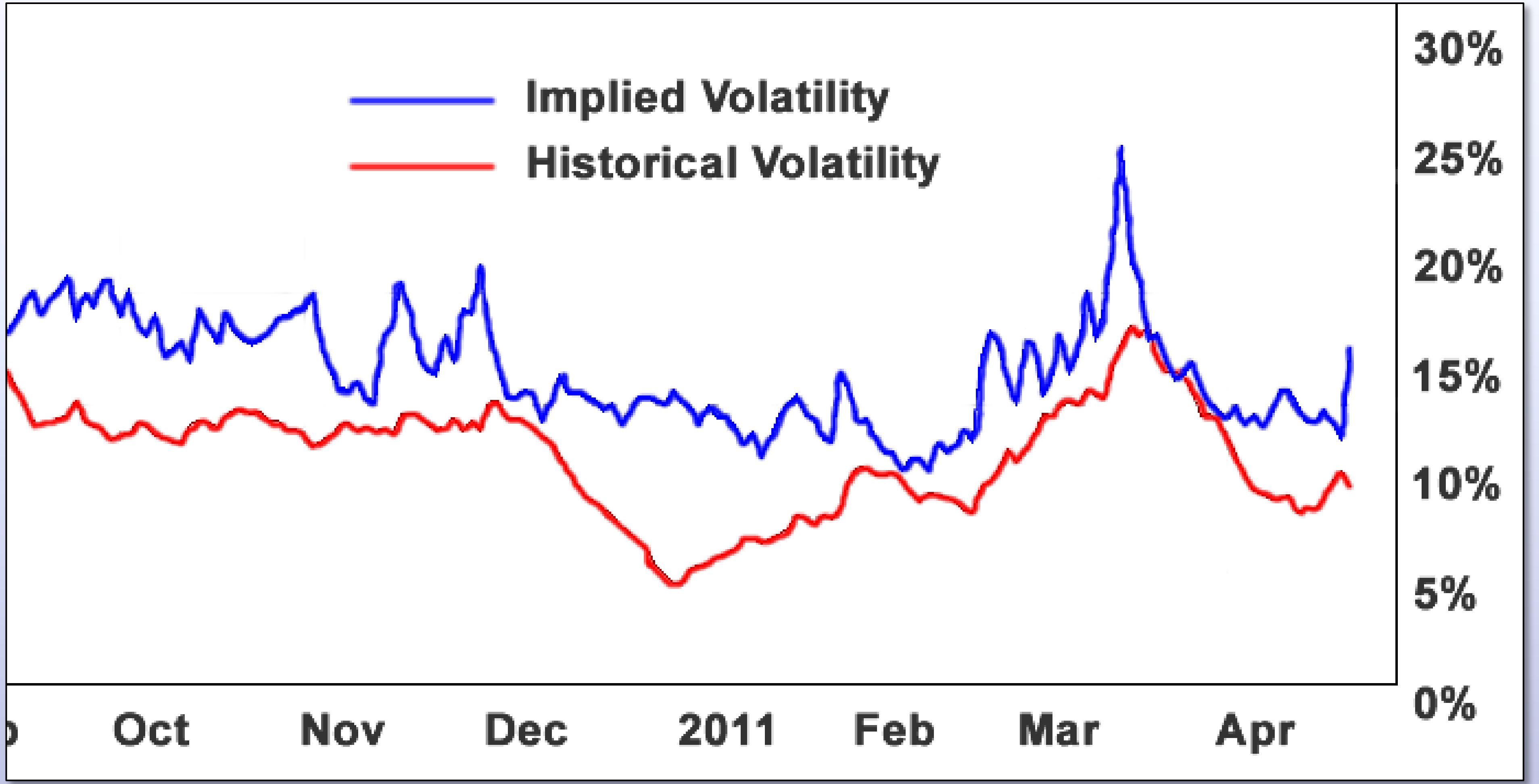
SPY Price Chart

Date: 4/21/2011 Price: $133.78



SPY Volatility Chart

Date: 4/21/2011 Price: $133.78



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SPY At-the-Money Calendar

Date: 4/21/2011 Price: $133.78

	MAY(30)				JUN(58)			
Options	Price	IV	Vega	Trade	Price	IV	Vega	Trade
134 Calls	$1.70	11.5%	15.3	-10	$2.70	13.5%	21.1	+10

Delta	13.1
Gamma	-33.9
Theta	5.0
Vega	57.9
Debit	1,000

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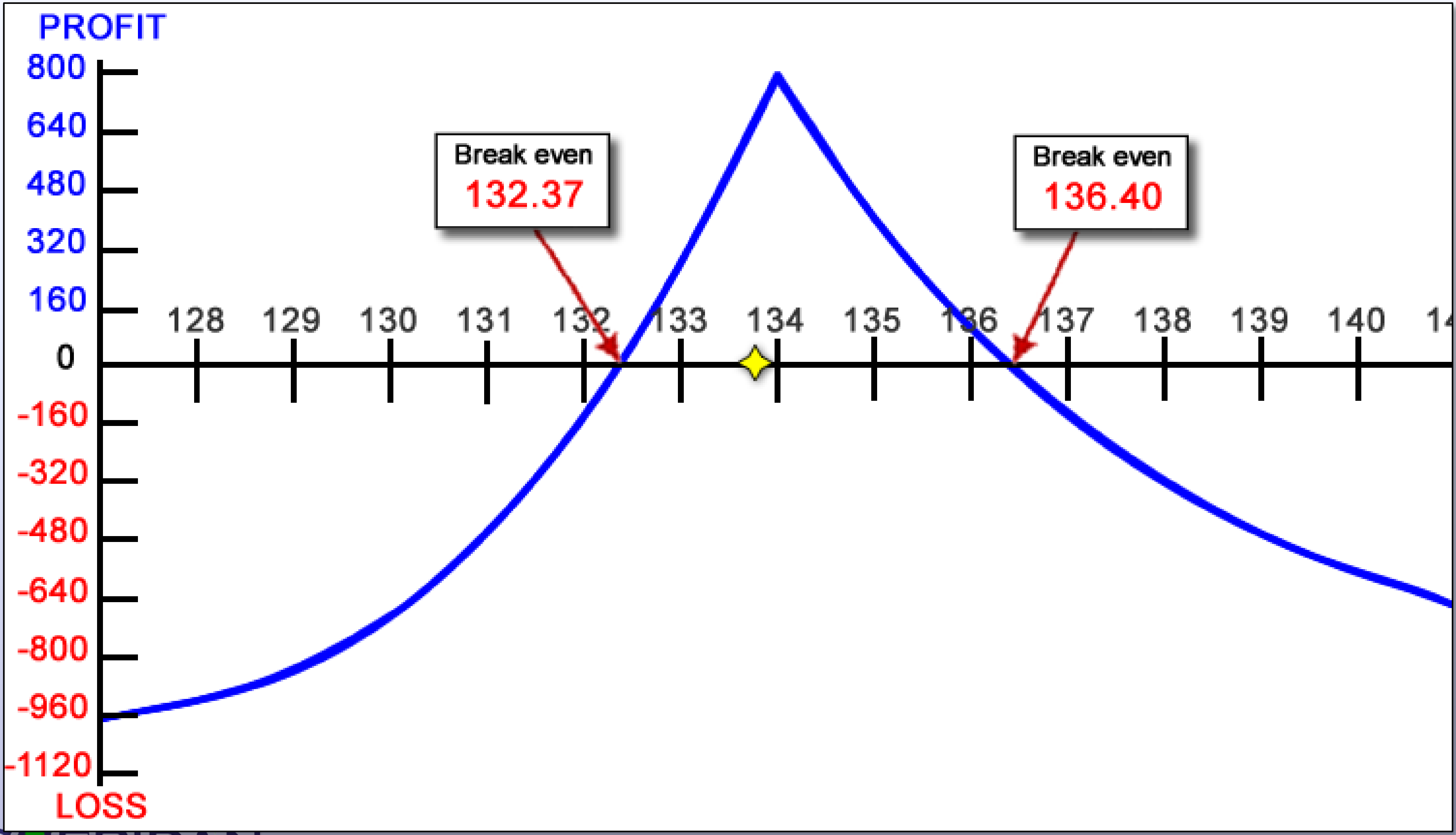
SPY At-the-Money Calendar

Date: 4/21/2011 Price: $133.78



SPY Straddle

Date: 4/21/2011 Price: $133.78

	MAY(30)			
Options	Price	IV	Vega	Trade
134 Calls	$1.70	11.5%	15.3	+10
134 Puts	$1.90	11.8%	15.3	+10

Delta	89.3
Gamma	184.4
Theta	-59.9
Vega	305.8
Debit	3,600

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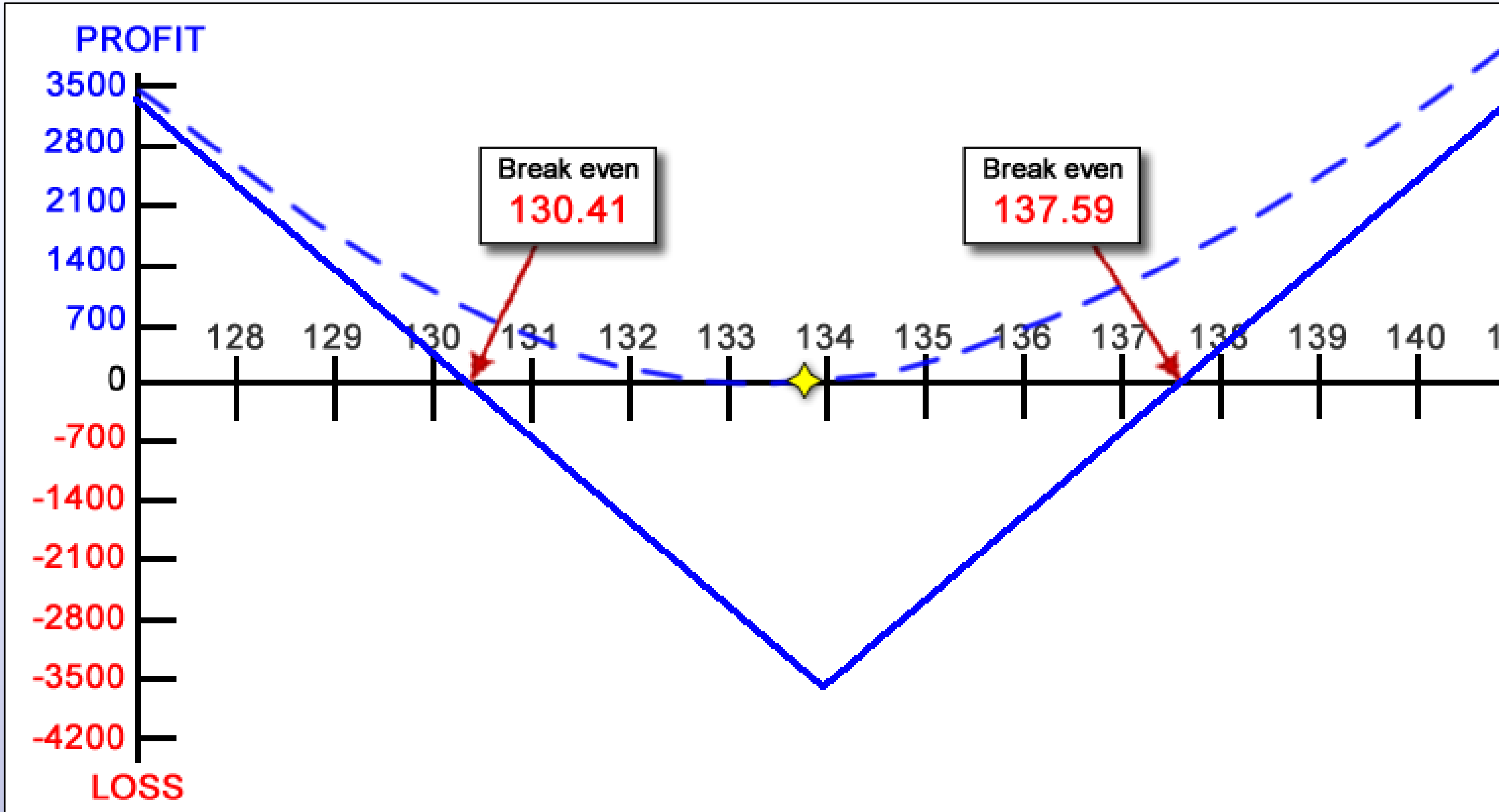
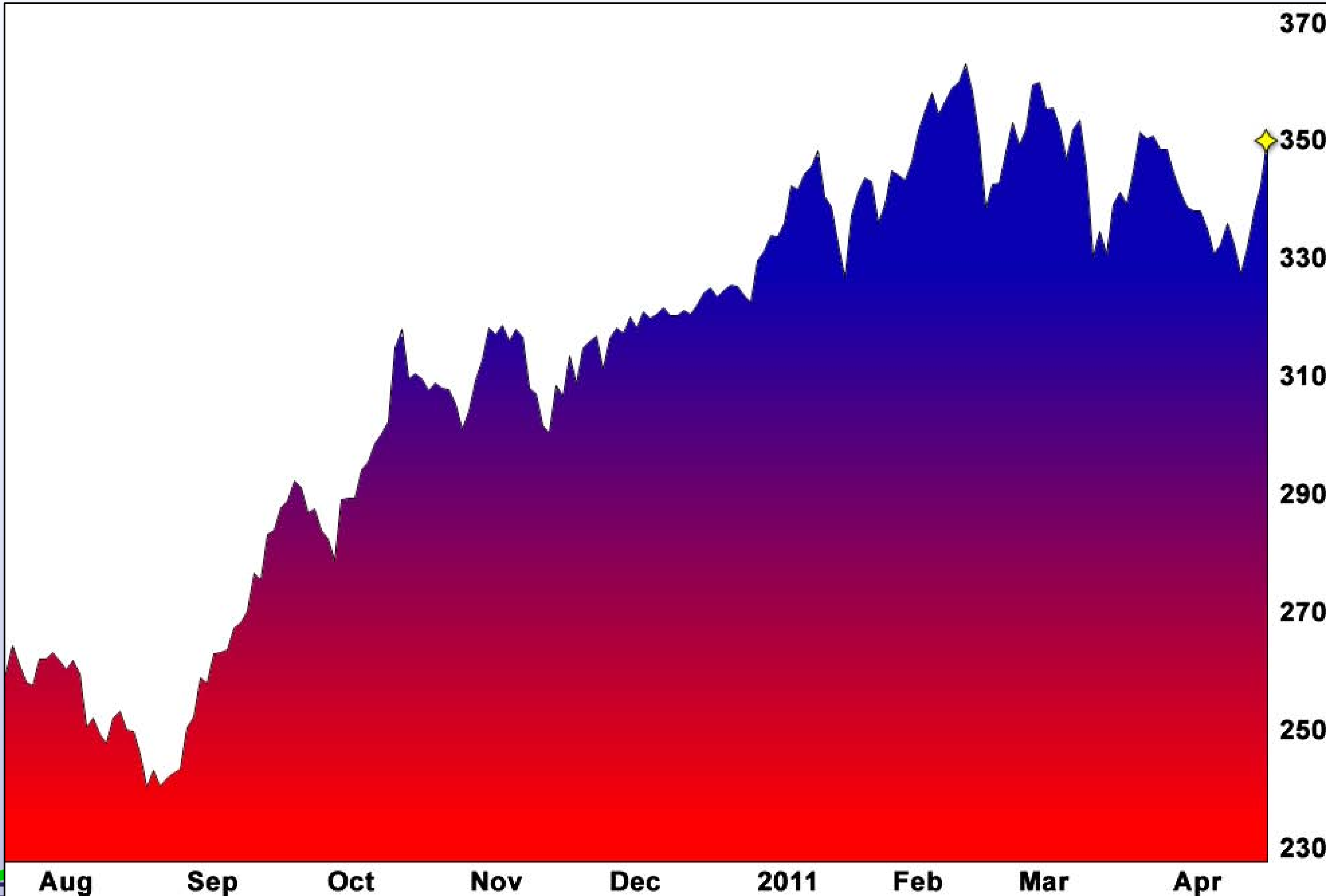
SPY Straddle

Date: 4/21/2011 Price: $133.78



AAPL Price Chart

Date: 4/21/2011 Price: $350.70



AAPL Synthetic Covered Call

Date: 4/21/2011 Price: $350.70

	MAY(30)				JUN(58)				
Options	Price	IV	Vega	Trade	Price	IV	Vega	Delta	Trade
350 Calls	$8.70	20.8%	40.0	-1					
325 Calls					$30.50	26.2%	41.1	83.1	+1

Delta	27.4
Gamma	-1.6
Theta	4.7
Vega	1.1
Debit	2,180

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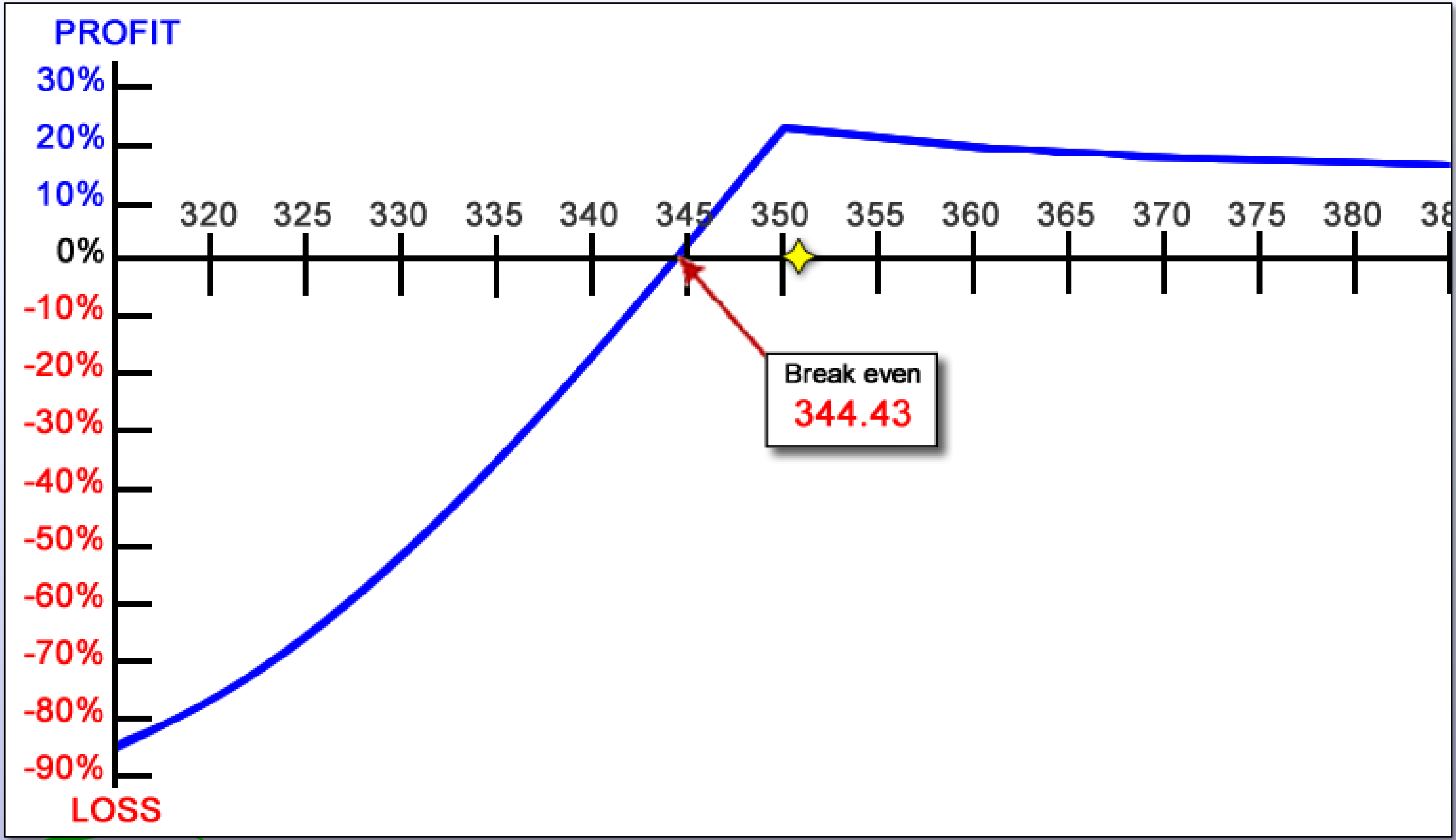
AAPL Synthetic Covered Call

Date: 4/21/2011 Price: $350.70



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Website Walk Through's
See What's on the Other Side

Let us show you a behind the scenes look at what our mentoring program and what our trading community is like. Dan pioneered option mentoring and has the most robust program with the best support to help you learn and continue to grow as a trader.

Take a few minutes to see for yourself how we can help take your option trading to the next level.

Sign up for your website walk through at http://www.sheridanmentoring.com/x/WT

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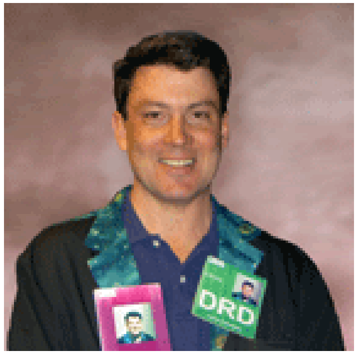

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