The sloppy connection between ETPs and futures contracts

... and swaps, and why maybe you should stay away from these assets

How a delta ETP can be collateralized with futures contracts – the rules

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Remembering that

Maximum leverage = Notional Value / Initial Margin

The **actual** leverage you earn is

Actual leverage = Notional Value / Cash in account

1. A long ETP holds long futures contracts, an inverse holds short futures contracts.
2. For a 1X ETP, *Notional Value = Cash in account*
3. For a 2X ETP, *Notional Value = 2X Cash in account*
4. For an αX ETP, *Notional Value = αX Cash in account*
5. Assets of the ETP equals the cash, ***not*** the notional value of the futures contracts.

The size of the initial & maintenance margins are not relevant.

Using these rules, let's build our own ETPs!!

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Building four Gold ETPs

Cash available per ETP [total **NAV**]:	$100,000,000
Total number of ETP shares:	10,000,000
NAV per share:	$10
Gold futures contract size:	100 troy ounces
Gold futures price:	$1,227.20
Gold spot price [memo]:	$1,184.16
Margin [memo]:	$6,000

Symbol	Futures position	Number of contracts	Total Notional Value
GLD1L	1X long	815	$100,000,000
GLD3L	3X long	2445	$300,000,000
GLD1S	1 X short	815	$100,000,000
GLD3S	3X short	2445	$300,000,000

The requirements/objective of building an ETP:

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1. The ETP's **total** NAV will equal the **total cash value** of the ETP's assets (and not the notional value of the ETP's futures contracts).
2. The ETP's **per-share** NAV will equal to total NAV divided by the number of shares outstanding.
3. [**1X** - cash equals notional value of futures contracts]: When the value of the futures contract changes by **X**% daily, then because of settlement,
   a. the total cash value changes by **X**%,
   b. therefore the **total** NAV changes by **X**%,
   c. therefore the **per-share** NAV changes by **X**%,
   d. therefore the ETP NAV *is* tracking the futures contract price perfectly,
   e. but that does ***not mean*** that it is tracking the spot perfectly, because the futures price **does not** necessarily track the spot price and the futures delta does not necessarily match the futures delta.
4. [**2X** - cash equals notional value of futures contracts]: When the value of the futures contract changes by **X**% daily, then because of settlement,
   a. the total cash value changes by **2X**%,
   b. therefore the **total** NAV changes by **2X**%,
   c. therefore the **per-share** NAV changes by **2X**% - hence leverage.

Example: How two of these ETPs would track:

		GLD1L: Contracts			815	GLD3S: Contracts			2445
Date	Price	Gain	Cash	Not Val	NAV	Gain	Cash	Not Val	NAV
0	1,227	0	100,000	100,001	10.00	0	100,000	300,002	10.00
1	1,245	1,467	101,467	101,468	10.15	-4,401	95,599	304,403	9.56
2	1,287	3,423	104,890	104,891	10.49	-10,269	85,330	314,672	8.53
3	1,262	-2,038	102,853	102,853	10.29	6,113	91,443	308,559	9.14
4	1,348	7,009	109,862	109,862	10.99	-21,027	70,416	329,586	7.04
5	1,303	-3,668	106,194	106,195	10.62	11,003	81,418	318,584	8.14
6	1,278	-2,038	104,157	104,157	10.42	6,113	87,531	312,471	8.75
7	1,202	-6,194	97,963	97,963	9.80	18,582	106,113	293,889	10.61

Do not explain this in the lecture. Tell the students to go back and reason through it if they do not understand the point being made by these slides.

Let's build our own futures contract ... in Bitcoins!

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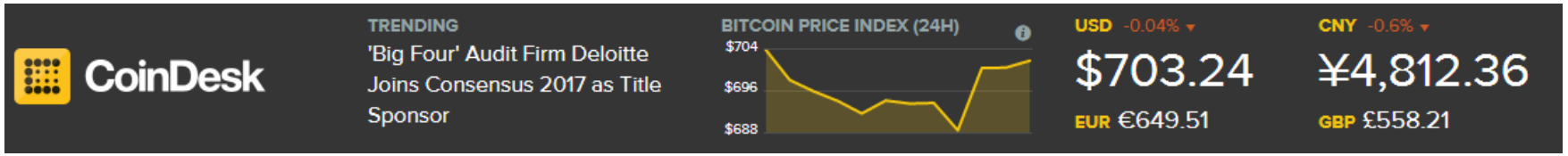
DWBH!

(from an old lecture)

Bitcoin Futures Contracts Specifications	
Contract size:	100 Bitcoins
Contract size (e-mini):	10 bitcoins
Pricing unit:	$ per BC, 3 decimal
Initial margin:	$4,600
Maintenance margin:	$4,000
Initial margin (e-mini):	$460
Maintenance margin (e-mini):	$400
Last trading day:	3rd Friday of month before
Frequency:	Quarterly
Delivery :	Pure financial (auto offset)



Now lets's build our own MuddFund Bitcoin ETPs:

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DWBH!

(from an old lecture)

Building three Bitcoin ETPs

Cash per ETP:	$10M	Date:
Spot Price:	$703.72	11-Nov-16
Futures Price:	$710.00	
Contract size:	100	
Margin (F):	$4,600	

Target	Spot BC or Futures L/S	Actual BC or Futures	Notional Value
1XL	**Actual BC**	14,210	10,000,000
2XL	**LF**	282	20,000,000
1XS	**SF**	141	10,000,000
2XS	**SF**	282	20,000,000

Betting on Oil with ETPs ... long

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Assets $1,549,955,593 on 11/23/2018 (not below)
SO: 145,300,000
NAV: $10.67

Figure 5 – Portfolio Holdings of the USO ETP on 9/28/2018

Daily Funds Holdings			as of September 28, 2018
Futues Contracts	Quantity	Price	Market Value
NYMEX WTI Crude Oil Nov 18	23,968	73.25	$1,755,656,000
Liquid (Cash) Assets			
US T Bills different maturities			$1,477,248,323
Cash			$138,747,622
Total Liquid Assets			$1,615,995,945

Source: USO Oil Fund Holdings: http://www.uscfinvestments.com/holdings/uso

So why do the stated assets appear to be double to declared assets?

Notice that USO is long. See how they do it? What if we wanted an inverse fund?

Betting on Oil with ETPs ... short

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DNO

Assets $11,334,404
SO: 150,000
NAV: $75.56

The fund has liquid assets and cash of about $11 million ..

Ummm .. these data are from 2016. Lazy professor??

Holdings as of 11/11/2016, subject to change

Security	Quantity	Price	Market Value
Commodity Interests			
NYMEX WTI Crude Oil CL JAN17	-243	44.15	$-10,728,450.00
US Treasuries			
US T BILL ZCP 12/15/16	500,000	99.97	$499,844.17
US T BILL ZCP 02/02/17	200,000	99.91	$199,817.78
US T BILL ZCP 02/09/17	300,000	99.90	$299,688.50
US T BILL ZCP 02/16/17	200,000	99.88	$199,760.00
US T BILL ZCP 05/04/17	200,000	99.76	$199,526.65
US T BILL ZCP 05/11/17	100,000	99.73	$99,727.50
Cash			
GOLDMAN SACHS FIN SQ GOVT-FS	1,000,000	1.00	$1,000,000.00
FIDELITY GOVERNMENT PORT-INS	2,000,000	1.00	$2,000,000.00
Interest Receivable	242	1.00	$242.82
US DOLLARS	4,658,054	1.00	$4,658,054.17

USO (+) vs. DNO (-) in 2018

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ETF.com STAFF

5 More ETFs To Close

August 13, 2018

Woops! What happened here?

Source: finance.yahoo.com

But ... (a rather important point)

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VIS!

Futures contracts can be used to hedge against rising (or falling) prices and inflation in general, *but* if inflationary expectations are robust and inflationary expectations are *already priced* in futures prices, no good hedge or no hedge at all will be available!

That's why when hedging is part of your business or investment strategy, you must either hedge all of the time (including when it may look like you least need to hedge), which involves some cost, or you have to be confident that you have an edge and can move into the market before inflationary expectations push up the price of futures contracts.

When futures prices rise as the contracts get more distant, the media and analysts sometimes call this a **contango** (see the example next slide). The opposite is called "backwardation."

The oil contango of late 2008

This is a 31% spread, far beyond any carry cost!

New York Mercantile Exchange (NYMEX)
Energy
CRUDE OIL (CL)

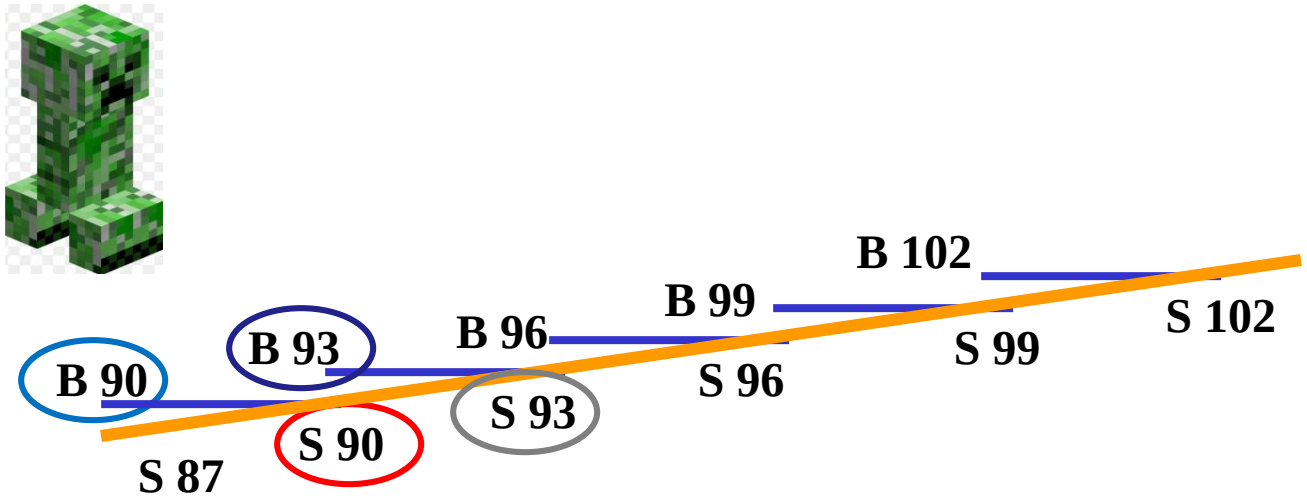
Download data | Analyze Chart

Market		Open	High	Low	Last	Change	Pct	Time
CL.F09	Jan 2009	43.40	44.20	43.15	43.15	-0.56	-1.28%	14:33
CL.G09	Feb 2009	46.10	46.40	44.60	44.60	-1.76	-3.78%	14:28
CL.H09	Mar 2009	46.80	46.80	46.80	46.80	-1.82	-4.07%	14:29
CL.J09	Apr 2009	50.25	50.25	50.25	50.25	-0.04	-0.08%	10:32
CL.K09	May 2009	77.15	77.15	77.15	51.64	+4.03	+7.80%	set 15:25
CL.M09	Jun 2009	54.20	54.20	54.15	52.78	+3.94	+7.46%	set 15:25
CL.N09	Jul 2009	59.58	59.58	59.58	53.76	+3.84	+7.14%	set 15:25
CL.Q09	Aug 2009	54.63	54.63	54.63	54.63	0.00	0.00%	09:42
CL.U09	Sep 2009	64.15	64.15	64.15	55.48	+3.59	+6.47%	set 15:25
CL.V09	Oct 2009	117.80	118.00	117.80	56.32	+3.50	+6.21%	set 15:25
CL.X09	Nov 2009	100.70	100.70	100.70	57.15	+3.41	+5.97%	set 15:25
CL.Z09	Dec 2009	60.25	60.25	60.00	57.98	+3.33	+5.74%	set 15:25
CL.F10	Jan 2010	61.35	61.35	60.80	58.78	+3.27	+5.56%	set 15:25

Source: ino.com

... can you effectively hedge when this contract is in contago??

Example of a Contango Introducing Tracking Bias into a Delta Tracking ETF Secured with Futures



The point: Will a commodity-based ETF that invests in futures see its NAV rise if the spot value of the commodity that it tracks rises month after month? No, is the answer if the futures contracts have a contango built in. In the example above, the NAV stays flat!

How contango prevents a futures-based ETP from tracking spot prices

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Hypothetical Convergence of Prices in Contango over 10 Trading Days

NYMEX WTI Crude Oil Contract, 1,000 barrels, final trading on period 10.

Day	0	1	2	3	4	5	6	7	8	9	10	
Futures	110.00	111.21	110.84	111.18	111.42	111.51	111.20	110.64	110.21	109.92	110.00	
Spot	100.00	100.82	101.76	103.04	104.37	105.12	106.10	106.76	107.94	109.11	110.00	
												Net
Settle	0	1,210.00	-370.00	340.00	240.00	90.00	-310.00	-560.00	-430.00	-290.00	80.00	0.00

From a previous slide: Oil in Contango in 2008:

New York Mercantile Exchange (NYMEX)
Energy
CRUDE OIL (CL)

Download data | Analyze Chart

Market		Open	High	Low	Last	Change	Pct	Time
CL.F09	Jan 2009	43.40	44.20	43.15	43.15	-0.56	-1.28%	14:33
CL.G09	Feb 2009	46.10	46.40	44.60	44.60	-1.76	-3.78%	14:28
CL.H09	Mar 2009	46.80	46.80	46.80	46.80	-1.82	-4.07%	14:29
CL.J09	Apr 2009	50.25	50.25	50.25	50.25	-0.04	-0.08%	10:32
CL.K09	May 2009	77.15	77.15	77.15	51.64	+4.03	+7.80%	set 15:25
CL.M09	Jun 2009	54.20	54.20	54.15	52.78	+3.94	+7.46%	set 15:25
CL.N09	Jul 2009	59.58	59.58	59.58	53.76	+3.84	+7.14%	set 15:25
CL.Q09	Aug 2009	54.63	54.63	54.63	54.63	0.00	0.00%	09:42
CL.U09	Sep 2009	64.15	64.15	64.15	55.48	+3.59	+6.47%	set 15:25
CL.V09	Oct 2009	117.80	118.00	117.80	56.32	+3.50	+6.21%	set 15:25
CL.X09	Nov 2009	100.70	100.70	100.70	57.15	+3.41	+5.97%	set 15:25
CL.Z09	Dec 2009	60.25	60.25	60.00	57.98	+3.33	+5.74%	set 15:25
CL.F10	Jan 2010	61.35	61.35	60.80	58.78	+3.27	+5.56%	set 15:25

During times when the futures contracts are in Contango (example shown for oil in 2008) then all futures are well above spot and all go subsequently higher with duration.

These contracts must be rolled over.

Therefore you are tending to buy higher than settlement if spot doesn't rise enough to cover the spread.

WPI spot vs. USO: 2016 long-run tracking bias

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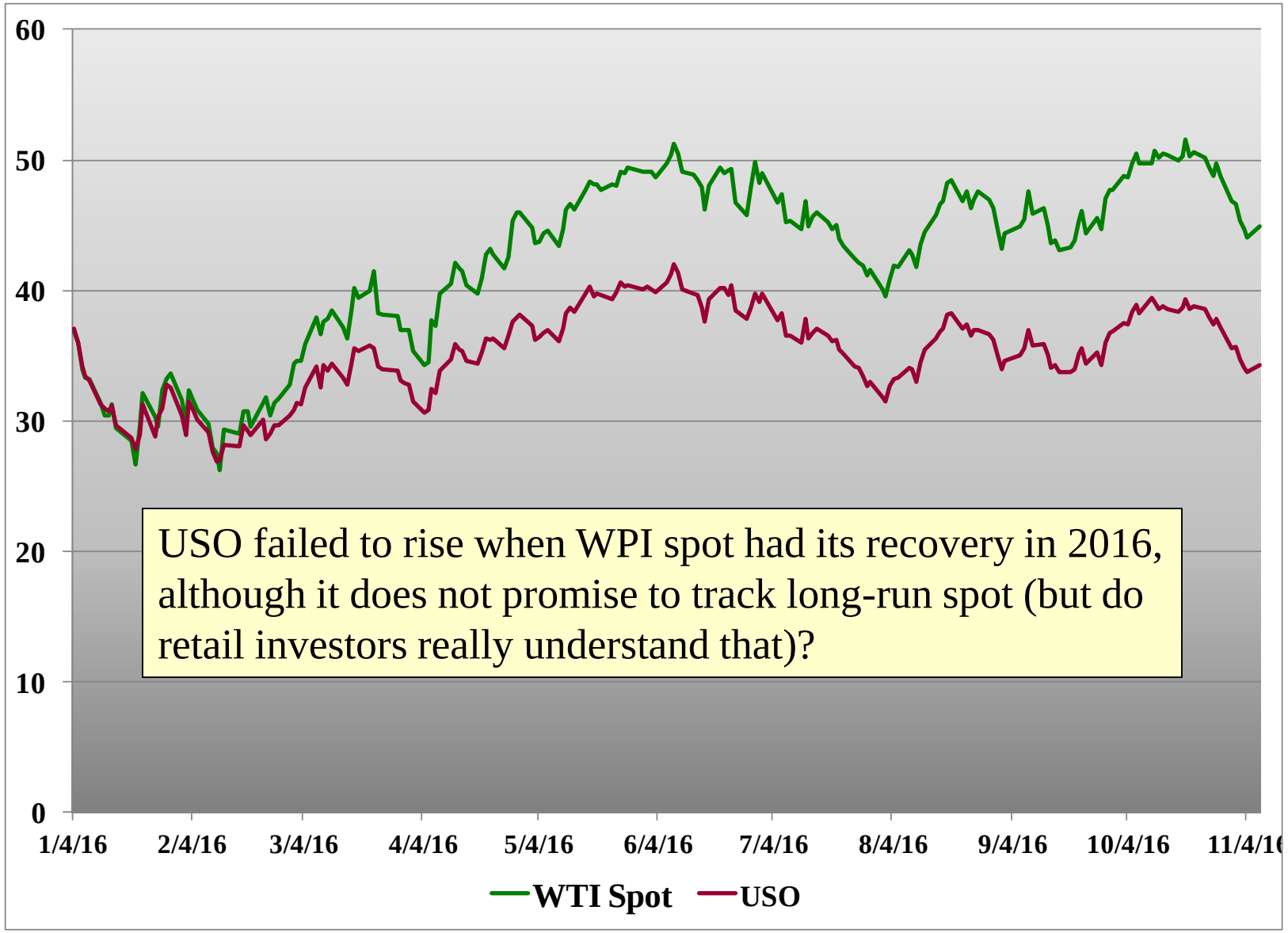

USO tracking WSI spot in 2018

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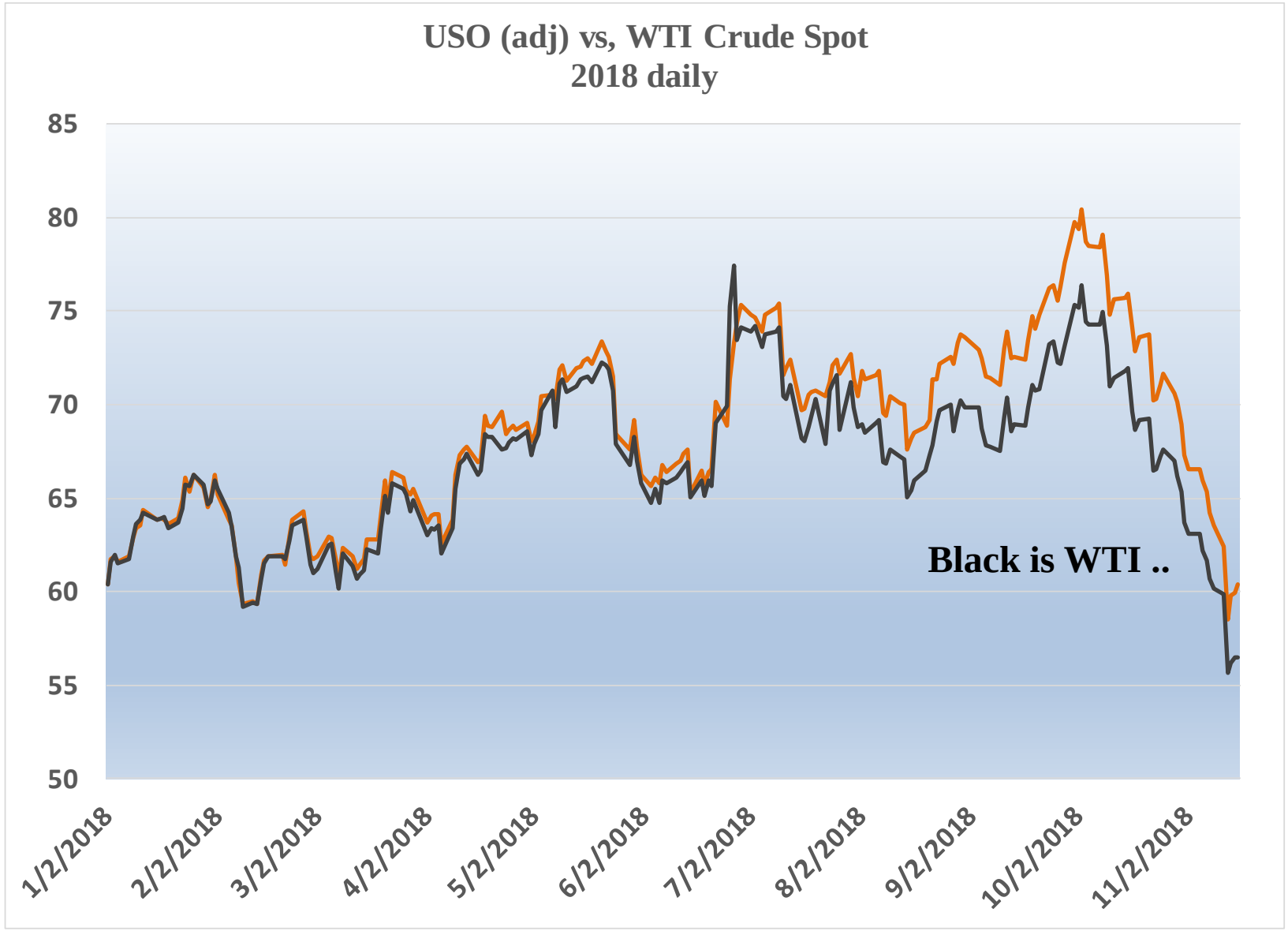

USO was normalized to the price of WTI by multiplying it times 5.001657. The tracking is reasonable, but breaks down some as oil plunges. Of course, this is not supposed to track daily spot, but how many traders know that?

You need to understand why this tracking will break down if there is a contango, and when would that contango become likely?? **VIS!!**

12 month oil fund– a more complex contract

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Holdings as of 11/23/2018, subject to change

Security	Quantity	Price	Market Value
Commodity Interests			
NYMEX WTI Crude Oil CL NOV19	90	51.59	$4,643,100.00
NYMEX WTI Crude Oil CL OCT19	90	51.51	$4,635,900.00
NYMEX WTI Crude Oil CL SEP19	90	51.43	$4,628,700.00
NYMEX WTI Crude Oil CL AUG19	90	51.34	$4,620,600.00
NYMEX WTI Crude Oil CL JUL19	90	51.26	$4,613,400.00
NYMEX WTI Crude Oil CL DEC19	89	51.66	$4,597,740.00
NYMEX WTI Crude Oil CL MAY19	90	51.06	$4,595,400.00
NYMEX WTI Crude Oil CL APR19	90	50.91	$4,581,900.00
NYMEX WTI Crude Oil CL MAR19	90	50.76	$4,568,400.00
NYMEX WTI Crude Oil CL JUN19	89	51.17	$4,554,130.00
NYMEX WTI Crude Oil CL FEB19	90	50.59	$4,553,100.00
NYMEX WTI Crude Oil CL JAN19	89	50.42	$4,487,380.00
US Treasuries			
US T BILL ZCP 12/06/18	3,000,000	99.93	$2,997,930.00
US T BILL ZCP 12/13/18	3,000,000	99.89	$2,996,770.00
US T BILL ZCP 12/20/18	3,000,000	99.85	$2,995,515.00
US T BILL ZCP 12/27/18	3,000,000	99.81	$2,994,362.50
US T BILL ZCP 01/03/19	3,000,000	99.77	$2,993,083.33

Fund Facts *as of 11/23/2018*

NAV	$19.34
NAV Change	$-1.54
4PM Bid/Ask Midpoint	$19.69
Last Trade Price	$19.65
Premium Discount (%)	1.81%
Shares Outstanding	2,850,000
Total Net Assets	$55,116,833
Estimated Yield on Cash Holdings* *as of 11/23/2018*	1.95%

*Represents the estimated annualized yield of the portfolio's cash and cash equivalent holdings based on the current daily accrual rate. Actual rates are subject to change daily and may vary.

... etc (T-bills and cash)

ETNs and Swaps ... the new red flag

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DOG **SHORT DOW30**

ProShares Short Dow30 seeks daily investment results, before fees and expenses, that correspond to the inverse (-1x) of the daily performance of the Dow Jones Industrial Average℠.

OVERVIEW | PERFORMANCE & QUOTE | DAILY HOLDINGS | DISTRIBUTIONS | INDEX/BENCHMARK | RELATED MATERIALS

As of 11/23/18

Description	Coupon	Maturity Date	Exposure Value (Notional + G/L)	Market Value ($)	Shares/Contracts
DJ INDUSTRIAL AVERAGE INDEX SWAP BNP PARIBAS	-	-	(971,438.00)	-	(40.00)
DJ INDUSTRIAL AVERAGE SWAP UBS AG	-	-	(3,251,937.28)	-	(133.90)
DJ INDUSTRIAL AVERAGE SWAP BANK OF AMERICA NA	-	-	(10,095,475.13)	-	(415.69)
DJIA MINI 12/21/2018 (DMZ8)	-	-	(12,138,500.00)	-	(100.00)
DJ INDUSTRIAL AVERAGE SWAP DEUTSCHE BANK AG	-	-	(19,065,296.47)	-	(785.03)
DJ INDUSTRIAL AVERAGE SWAP SOCIETE GENERALE	-	-	(28,059,476.63)	-	(1,155.37)
DJ INDUSTRIAL AVERAGE SWAP CREDIT SUISSE INTERNATIONAL	-	-	(31,835,043.27)	-	(1,310.84)
DJ INDUSTRIAL AVERAGE SWAP CITIBANK NA	-	-	(39,985,043.80)	-	(1,646.42)
DJ INDUSTRIAL AVERAGE SWAP GOLDMAN SACHS INTERNATIONAL	-	-	(84,916,139.89)	-	(3,496.51)

A swap is a contract with a 3rd party who promises to pay you according to a performance metric (such as 1X inverse DOW) in exchange for a fee, like LIBOR + 3%. The 3rd party uses the futures contracts ... maybe. This is OK as a spec asset but **not** a retirement asset.

DWBH: What is a spark spread?? [Background to pennies_steamroller lecture]

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How much energy will a barrel of oil produce?: **X**
How much energy will a dekaTherm of natural gas produce?: **Y**
What unit of measure should we use? [heat]
Shouldn't the price be the same for equal amounts of energy?

The spark spread suggest that

$$P_{co}/P_{ng} = Y/X$$

any substantial deviation from this should trigger an arbitrage trade!

Hmmm! Go long on oil and short on natural gas. How can we short gas? We can short futures .. **or we can write a call!!**

Note: original slide had this upside down

.. so a bunch of us were wondering about this on Reddit over the weekend ..

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[–] **RothbardbePeace** 1 point 19 hours ago

This is a question I would like to see answered as well. I know that is often comes up when you study a possible long/short pair type trade. Lets say you notice that oil and gas have some positive correlation. You also have some fundamental theory that the energy content(joules/$) for each content should over time be roughly equal...kinda makes sense right? so when one gets far more expensive than the other you theorize..."hey this is out of whack....lets short one and go long the other one and bet they will come back closer to parity at some point in the future" ...it is nice to check the historical correlation between the two commodities or stocks you have picked to bet on...like a high correlation gives you some confidence that yes the two things do tend to move together a lot so it shouldn't decrease the risk of betting on anyone of the two securities by itself....but how consistently do the two securities/instruments actually "bounce" back towards parity or the norm or the mean?

that is my understanding of "cointegration" but I'd like a better understanding.

permalink embed save report give gold reply

DWBH: [Background to pennies_steamroller lecture]

[–] **RothbardbePeace** 1 point 19 hours ago

btw....the worst position to be in over the past two weeks is the long crude oil short natural gas trade. Rumor is that some big fund was caught on that bet and helping fuel the current squeeze upwards in gas futures(biggest NG rally in more than 4 years).

permalink embed save parent report give gold reply

> While fundamental factors like weather, storage, production and demand all played a role, hedge funds that had been long crude and short natural gas for the winter were forced to unwind their positions this week, feeding volatility in the market, according to the analysts in a note.

[–] **ProfEpsilon** 1 point just now

That is an interesting point. When looking at the NG charts the last few days I have to keep wondering ... what the hell?? This is an interesting theory ... sort of an odd pairs trade gone massively wrong.

permalink save parent edit disable inbox replies delete reply

Options on futures contracts .. so you want leverage!!!

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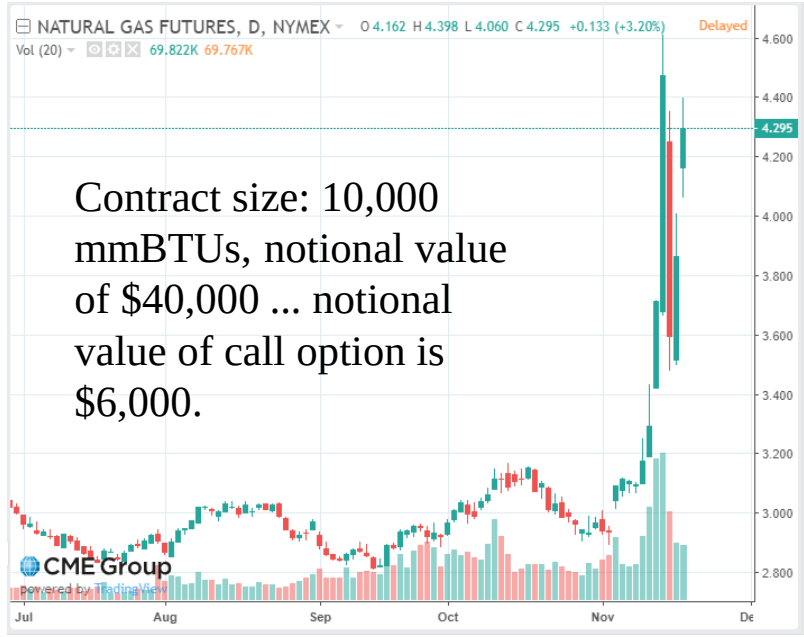
DWBH memo: [Background to pennies_steamroller lecture]

This may be hard to believe, but options are written on futures contracts. You can buy a call or put at various strike prices on futures contracts. The logic works in exactly the same way is does stocks.

Calls								Strike Price	Puts							
Updated	Hi / Low Limit	Volume	High	Low	Prior Settle	Change	Last		Last	Change	Prior Settle	Low	High	Volume	Hi / Low Limit	Updated
15:22:24 CT 19 Nov 2018	No Limit / 0.001	0	-	-	0.605	-	-	4350.0	-	-	1.200	-	-	0	No Limit / No Limit	16:00:00 CT 18 Nov 2018
15:22:24 CT 19 Nov 2018	No Limit / 0.001	0	-	-	0.591	-	-	4400.0	-	-	1.246	-	-	0	No Limit / No Limit	16:00:00 CT 18 Nov 2018
15:22:24 CT 19 Nov 2018	No Limit / 0.001	0	-	-	0.578	-	-	4450.0	-	-	0.879	-	-	0	No Limit / 0.001	15:22:24 CT 19 Nov 2018
15:22:24 CT 19 Nov 2018	No Limit / 0.001	25	-	-	0.565	-	-	4500.0	-	-	0.916	-	-	120	No Limit / 0.001	15:22:24 CT 19 Nov 2018
15:22:24 CT 19 Nov 2018	No Limit / 0.001	0	-	-	0.553	-	-	4550.0	-	-	0.954	-	-	0	No Limit / 0.001	15:22:24 CT 19 Nov 2018



Shown here is a Feb19 expiry option chain on the Mar19 NG futures contract (graph on the right). The 4350 call is selling for 0.60 and the put is selling for 1.20, the futures price is 4295. What would be the leverage if we **wrote a naked call**?

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He did this!! Brilliant pairs trade ... only an expert would know how to do this ...

DWBH: [Pennies in front of steamrollers]

Watch it for yourself .. it is very entertaining!!

https://www.youtube.com/watch?v=WTFBmGA2kjE

another ... https://www.youtube.com/watch?v=8xgE5KyD55Q

DWBH: [Pennies in front of steamrollers]

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https://www.zerohedge.com/news/2018-11-18/optionsellerscom-goes-dark-after-catastrophic-loss-event-natgas-short-squeeze

On November 15, 2018, OptionSellers.com notified its investors in an email entitled "Catastrophic Loss Event" that it not only lost all their money, but that they would also owe money to Intl FC Stone for margin calls.

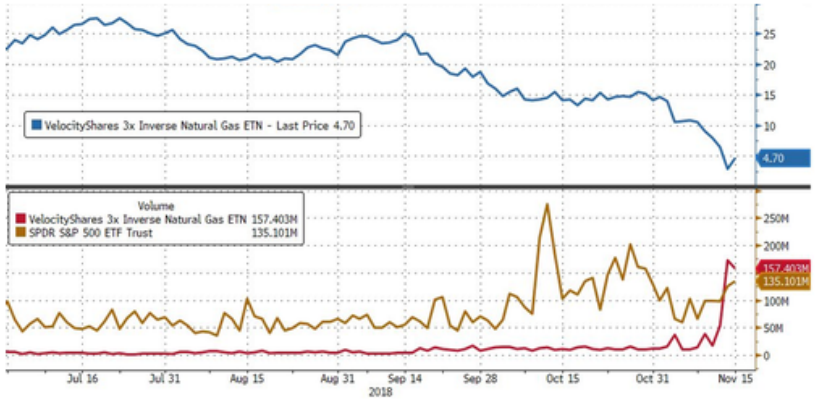
> *I am writing to give you an update on the situation here with your account.*
>
> ***We have spent the week unwinding our short natural gas call position as expediently as possible.***
>
> *Today which was to be the final day of liquidation, the market flared as prices appear to have been* ***caught in a "short squeeze."***
>
> *The speed at which it took place is truly beyond anything I have seen in my career.* ***It overran our risk control systems*** *and left us at the mercy of the market.*
>
> ***In short, it was a rogue wave and it overwhelmed us.***
>
> *Unfortunately, this has* ***resulted in a catastrophic loss.***
>
> ***Our clearing firm, FC Stone now requires us to liquidate all positions.*** *We hoped to have this done today. If not, it will be completed tomorrow.*
>
> ***Your account could potentially be facing a debit balance as of tomorrow****. OptionSellers.com will be processing fee credits over the course of the coming days to help alleviate debit balances. What these will be will be determined after all positions are cleared.*
>
> ***This has in effect, crippled the firm. At this point, our brokers at FC Stone have been assisting us in liquidation.***
>
> *Our offices will remain open and we will all still be here to answer your questions and process account closings.* ***We will do everything in our power to ease what discomfort we can.***
>
> *I am truly sorry this has happened.*
>
> *I will be updating you again via memo in 24 hours.*
>
> *Regards,*
>
> *OptionSellers.com*

In case you were wondering just that means, Dear Client, here is OptionSeller.com's Q&A on "Debit Balances"...

> ***What do I do about this Debit Balance?***
>
> *You likely received a debit call notice from FC Stone this morning via email.* ***You may receive it in the mail as well. This is a call to add funds to bring the balance back up to zero.*** *Instructions for paying the balance on the notice. Any questions on debit balances can be directed directly to FX Stone at the number on the notice. Stone requests the funds asap but if it takes a few days, that is OK.*
>
> ***What happens if I don't pay the balance?***
>
> *We recommend balances be paid. If it is not paid, it becomes like any other unpaid bill.*

For some context, not only did the NatGas calls rocket in price due to 'delta' changes in the underlying, 'vega' exploded them exponentially as **NatGas vol spiked to a record high** over 90... A double-whammy for the short call positions which "crippled the firm."

We suspect these 'picking up pennies in front of a steamroller'-conmen were not alone in their strategic losses.

> *As we noted previously, what is notable is that the move in nat gas was so powerful, it nearly caused a VIXtermination-type event in the VelocityShares Daily 3X Inverse Natural Gas ETN, which seeks to produce three times the opposite daily move of US natural gas prices and is known by its stock market ticker DGAZ.*
>
> *Derivatives strategist Pravit Chintawongvanich, who rose to popularity with his hourly hot takes during the February VIXplosion that anihilated several inverse VIX ETNs, pointed out that DGAZ and its "long" leveraged cousin UGAZ could be liquidated if natural gas prices move sharply:* ***"Because these products offer 3x daily leverage, a one day move greater than 33 per cent in either direction would blow up one of them,"*** *he wrote.*
>
> 
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>
> *In other words,* ***the market was this close to another inverse ETN extinction event, only this time not in volatility but in natural gas.*** *Meanwhile, the DGAZ's days may be limited: starting off the month with $500MM in assets, in just two weeks it has been cut in half, and as of this morning had just $247MM in assets.*

And so, the thoughtful-looking, wealthy grey-haired gentlemen of today should given their Fed-earned money to the managed accounts of OptionsSellers.com, which touted itself as premier and highly experienced commodities options trading firm. The firm's president and head trader, James Cordier, explained in a recent interview: ***"Our goal is to take an aggressive vehicle and manage it conservatively."***

Unfortunately for the clients' managed accounts, Cordier's actions were anything but 'conservative'.

Mudd finance

Option sellers?? ~~That is supposed to mean writing covered calls!~~ Actually his book promotes the strategy of directly writing naked options, and other traders made it clear that this is what he typically did.

Also, this may or may not have been motivated by a spark spread.

This may have also been a "double-up bet."

DWBH: [Pennies in front of steamrollers]

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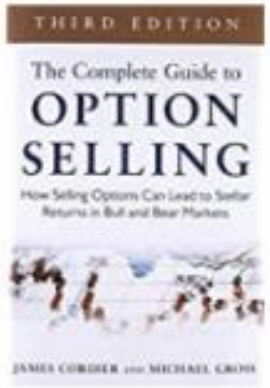

The Complete Guide to Option Selling: How Selling Options Can Lead to Stellar Bear Markets, 3rd Edition Oct 13, 2014
by James Cordier and Michael Gross

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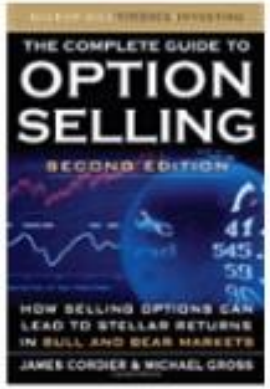

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by James Cordier and Michael Gross

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Total loss of $80 to $100 million ...

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Yes, it is true. I am one of the suckers. Blew up my $400K+ invested and left a $125K debt to Intl FC Stone all in the space of 3 days. I wager total amount is much more than $72 million. Ironically, they recently increased min. investment to $1MM for new clients. #optionsellers

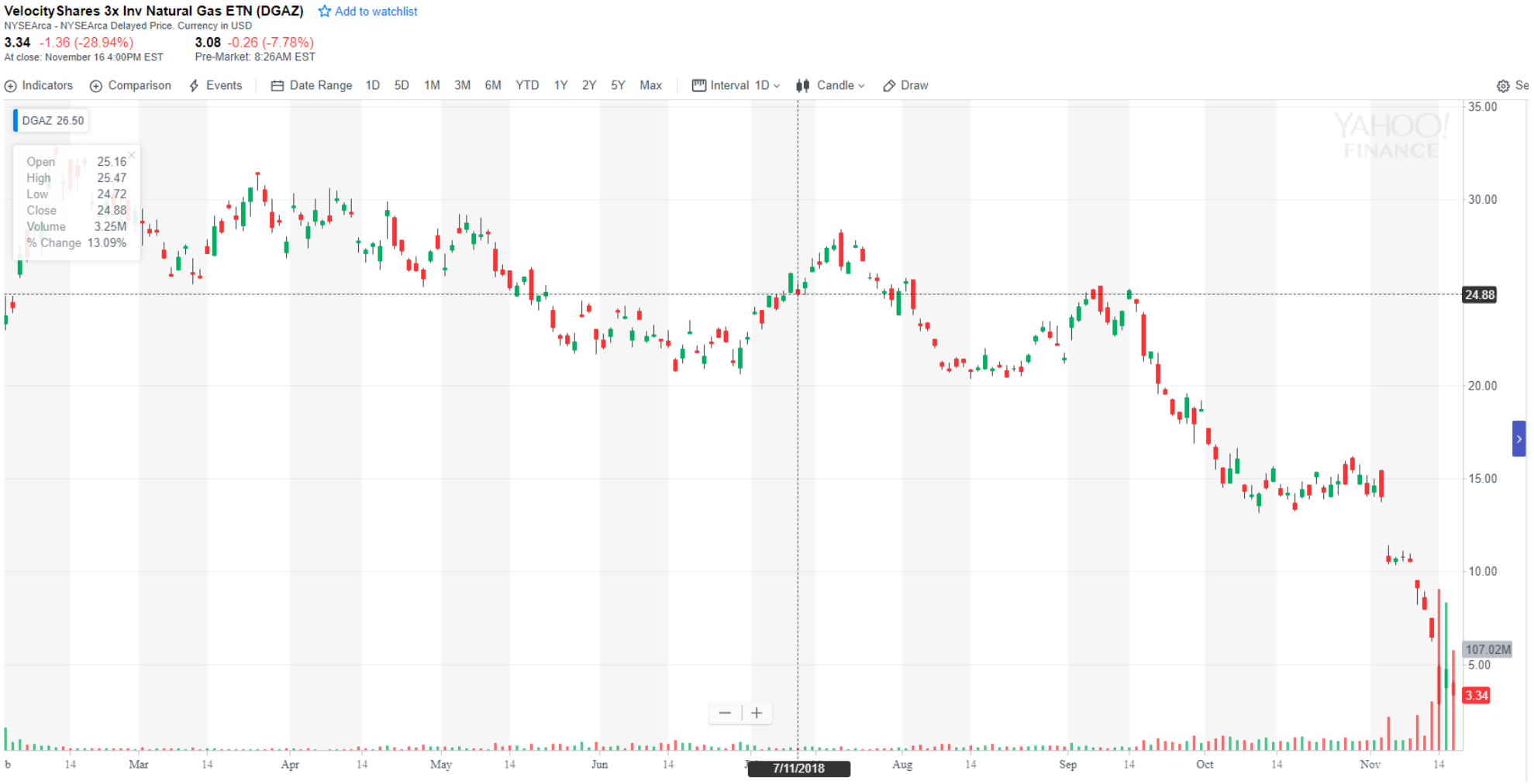
4:05 PM - 17 Nov 2018

https://www.wsj.com/articles/energy-losses-prompt-emotional-video-to-options-firms-clients-1542709800?mod=article_inline

WSJ article

oh, and while we are at it, what about those inverse 3X ETNs (stress the "N") that were leveraged only 3 to 1?

Mudd finance



DWBH: [Pennies in front of steamrollers]

INTL FCStone

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DAILY STATEMENT

MANAGED BY OPTIONSELLERS.COM INC

STATEMENT DATE: NOV 14, 2018

DISCRETIONARY A/C ACCOUNT NUMBER:

SALESMAN: LTG03

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* * * * * * * * * * C O N F I R M A T I O N * * * * * * * * * *

THE FOLLOWING TRADES HAVE BEEN MADE THIS DAY FOR YOUR ACCOUNT AND RISK.

TRADE	CARD	AT	BUY	SELL	CONTRACT DESCRIPTION		ST	PRICE	CC	DEBIT/CREDIT
11/14/8		U1	1		PUT JUN 19 CMX GOLD	1085	F	4.80000000	US	480.00DR
					UND CLOSE 1228.40000000					
		U1	1*		EX- 5/28/19			CLEARING FEE	US	1.65DR
		U1			AVG LONG:	4.80000		NFA FEE	US	.02DR
		U1						EXECUTION FEE	US	2.50DR
		U1						OPTION PREMIUM	US	480.00DR
								GROSS PROFIT OR LOSS		.00
11/14/8		U1	9		CALL DEC 19 CMX GOLD	1575	F	6.43448270	US	5,791.03DR
					UND CLOSE 1246.20000000					
		U1	9*		EX-11/25/19			CLEARING FEE	US	14.85DR
		U1			AVG LONG:	6.43448		NFA FEE	US	.18DR
		U1						EXECUTION FEE	US	22.50DR
		U1						OPTION PREMIUM	US	5,791.03DR
								GROSS PROFIT OR LOSS		.00
11/14/8		U1	1		CALL DEC 19 CMX GOLD	1600	F	6.10000000	US	610.00DR
					UND CLOSE 1246.20000000					
		U1	1*		EX-11/25/19			CLEARING FEE	US	1.65DR
		U1			AVG LONG:	6.10000		NFA FEE	US	.02DR
		U1						EXECUTION FEE	US	2.50DR
		U1						OPTION PREMIUM	US	610.00DR
								GROSS PROFIT OR LOSS		.00
11/14/8		U1	7		CALL DEC 19 CMX GOLD	1625	F	5.70000000	US	3,990.00DR
					UND CLOSE 1246.20000000					
		U1	7*		EX-11/25/19			CLEARING FEE	US	11.55DR
		U1			AVG LONG:	5.70000		NFA FEE	US	.14DR
		U1						EXECUTION FEE	US	17.50DR
		U1						OPTION PREMIUM	US	3,990.00DR
								GROSS PROFIT OR LOSS		.00
11/14/8		U1	12		PUT DEC 19 CMX GOLD	1075	F	9.40000000	US	11,280.00DR
					UND CLOSE 1246.20000000					
		U1	12*		EX-11/25/19			CLEARING FEE	US	19.80DR
		U1			AVG LONG:	9.40000		NFA FEE	US	.24DR
		U1						EXECUTION FEE	US	30.00DR
		U1						OPTION PREMIUM	US	11,280.00DR
								GROSS PROFIT OR LOSS		.00
11/14/8		U1	13		CALL DEC 19 CMX SILVER FCS GLOBAL	2100	F	11.78846100	US	7,662.50DR
					UND CLOSE 1461.10000000					
		U1	13*		EX-11/25/19			CLEARING FEE	US	21.45DR
		U1			AVG LONG:	11.78846		NFA FEE	US	.26DR
		U1						EXECUTION FEE	US	32.50DR
		U1						OPTION PREMIUM	US	7,662.50DR
								GROSS PROFIT OR LOSS		.00
11/14/8		U1	7		PUT DEC 19 CMX SILVER FCS GLOBAL	1175	F	19.00000000	US	6,650.00DR
					UND CLOSE 1461.10000000					
		U1	7*		EX-11/25/19			CLEARING FEE	US	11.55DR
		U1			AVG LONG:	19.00000		NFA FEE	US	.14DR
		U1						EXECUTION FEE	US	17.50DR
		U1						OPTION PREMIUM	US	6,650.00DR
								GROSS PROFIT OR LOSS		.00

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TRADE	CARD	AT	LONG	SHORT	CONTRACT DESCRIPTION-OPEN		ST	PRICE	CC	DEBIT/CREDIT
9/27/8		U1		11	PUT MAR 19 NYME GA	2350	E	.05408330	US	2,640.00DR
				23*	.6 DQ .030EX-	2/25/19 CLOSE		.0240		5,520.00DR
					AVG SHORT:	.05406				
8/07/8		U1		3	PUT MAR 19 NYME GA	2400	E	.05653500	US	840.00DR
8/17/8		U1		7	PUT MAR 19 NYME GA	2400	SE	.04850000	US	1,960.00DR
10/02/8		U1		15	PUT MAR 19 NYME GA	2400	E	.05424400	US	4,200.00DR
				25*	.8 DQ .034EX-	2/25/19 CLOSE		.0280		7,000.00DR
					AVG SHORT:	.05291				

MARGIN CALL AND AGING

DATE	CURR	CALL AMOUNT	TYP	AGE
11/13/18	U1	180,570.57	(M)	2
11/14/18	U1	144,625.91	(M)	1

E=ELECTRONIC TRADE
F=APS TRADE

	USD SEGREGATED(U1)		*CONV SEG TOTAL*		**TOTAL CONVERTED**	
BEGINNING BALANCE	688,	CR	688,	CR	688,	CR
CLEARING FEE		DR		DR		DR
NFA FEE		DR		DR		DR
EXECUTION FEE		DR		DR		DR
TOTAL COMMISSION AND FEES	1,	DR	1,	DR	1,	DR
OPTION PREMIUM	616,	DR	616,	DR	616,	DR
ENDING BALANCE	71,	CR	71,	CR	71,	CR
TOTAL EQUITY	71,	CR	71,	CR	71,	CR
LONG OPTION VALUE	6,	CR	6,	CR	6,	CR
SHORT OPTION VALUE	225,	DR	225,	DR	225,	DR
NET MARKET VALUE OF OPTIONS	219,	DR	219,	DR	219,	DR
CURRENT NET LIQUIDATING VALUE	147,	DR	147,	DR	147,	DR
PRIOR NET LIQUIDATING VALUE	160,	CR	160,	CR	160,	CR
MARKET VARIANCE	308,	DR	308,	DR	308,	DR
INITIAL MARGIN REQUIREMENT	177,	CR	177,	CR	177,	CR
MAINTENANCE MARGIN REQUIREMENT	161,	CR	161,	CR	161,	CR
MARGIN DEFICIT	325,	DR	325,	DR	325,	DR
MARGIN CALL	325,[illegible]	DR	325,[illegible]	DR	325,[illegible]	DR

SUMMARY	M-T-D	Y-T-D
REALIZED PROFIT & LOSS		
USD	774,976.38-	688,243.24-

Madd finance

This is the actual account of a trader who lost $775,000 on these trades, posted on Twitter.

Summary statement of the danger ...

Mudd finance

Previous exam 2s have had this question or similar:

1. In your investment portfolio you will likely be able to choose between ETPs and mutual funds for you retirement portfolio. These two asset categories are similar, but they are also different in many respects. [15 pts.]

a) In what way are ETPs and mutual funds **similar**?
b) In what way are ETPs and mutual funds **different**?
c) How is it that ETPs are potentially more **dangerous** than mutual funds in their suitability for retirement accounts?

The real answer is that if you (a) understand the actual differences between traditional ETFs, ETNs, and ETPs that are collateralized with futures contracts and (b) do proper research into the ETPs that you are considering, and (c) do not trust "experts" to advise you and (d) realize that some (like bond ETFs) may have serious liquidation problems in a down market, they are not necessarily more dangerous for you.

The real problem that most retail investors do not know about or understand these hazards. Many regard all ETPs as similar to traditional ETFs that should track their objectives because they have simple asset portfolios. The retail investor does not know how futures contracts work and how contango and backwardation issues impact their performance. Nor do they really understand liquidity issues.

They will some day.