

Title: Get Him to the Greeks

Author: disoriented_llama

Created 2021-08-22 23:01:22 UTC

Permalink: /r/TheGloryHodl/comments/p9n1xb/get_him_to_the_greeks/

Url: /r/DDintoGME/comments/p9lm93/gamma_vanna_and_higher_greek_exposure_compiling/

Is_self: False

Linked Post:

Body:

ABSTRACT: Dealer, or market maker, hedging flows have become an extremely hot topic in financial media over the last two years. An exotic variety of equity market phenomena are attributed to "gamma imbalances" ranging from the March 2020 coronavirus-induced volatility to various meme stock manias. Our research indicates that gamma is only the tip of the iceberg when it comes to explaining market returns and volatility. A far lesser known greek, vanna, is responsible for a significant portion of non-fundamental daily market behavior.

****Explain Like I am Ape:**** Many of us who have been holding GME since before Jan (Oct 2020 for me) know that the idea of GAMMA SQUEEZE has been a huge part of the story until recently. I've been screaming in to the fucking abyss trying to get apes to see that options are not our enemy. Options cause Gamma Squeezes. A gamma squeeze would probably trigger moass. So apes need to reconnect with their roots and realize that options are an important tool for an ape. A Gamma Squeeze happens when enough OTM options are bought that forces market makers to buy GME shares (so they can stay neutral with respect to market direction). This buying of shares increases the price and more apes buy OTM options, which makes the market makers buy more GME stock. And so on. Anyway. In this paper, some smart motherfuckers suggest that another important way of measuring what an option is going to do -- VANNA -- might be more important than Gamma when it comes to squeezes like what we have seen in GME. In the future, we might be talking about Vanna squeezes. Hell, apes might create a fucking Vanna squeeze. Why the fuck not? Download the paper and check it out. I'm not affiliated with any of these folks -- I just ran across it today and it made my brain wrinkle a bit and my tits a bit more jacked than they already are.

****For apes in search of wrinkles**:** Gamma is the change in the Delta of an option contract with respect to the change in price of the stock (or ETF or whatever is underlying the option). The Delta is the change in the price of the option contract with respect to the change in the price of the stock. And now with calculus: Delta is the first derivative of option price wrt underlying price, and Gamma is the second derivative of option price wrt underlying price. Vanna, on the other hand, is the derivative of option price with respect to Delta *and* with respect to Vega. What the fuck is Vega?! Vega is the change in the price of an option contract with respect to volatility. So Vega is like Delta in being a 1st derivative. But it measures the way the price of the option changes when GME stock's volatility changes, rather than when the price of GME stock's price changes. Vanna is like Gamma in being a 2nd derivative. Gamma is pure in a sense that it involves only a single other variable, but Vanna involves two (underlying price and volatility).

For more on options greeks: <https://www.investopedia.com/trading/using-the-greeks-to-understand-options/>

100% behind GME. Been holding for almost 11 fucking months (please moass before birthdays become common).

If you don't care about options, then no worries: just buy and hold.