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**Eurex**

# Sharpening Your Return Targets On European Stocks: Strategies Using Micro DAX Options

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# Greater DAX, Micro Options

Fine-tuning your strategy with micro-sized options on  
Germany's Benchmark Stock Index

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## About Tariq Dennison TEP

- Independent Wealth Manager and Investment Adviser
  - US Adviser: GFM Asset Management LLC
  - HK Adviser: GFM Group Limited
- In the market since 1998
  - Commerzbank (NY, London, Frankfurt)
  - Bear Stearns (NY)
  - J.P. Morgan (NY)
  - Canadian Imperial Bank of Commerce
  - Société Générale (HK)
- Masters in Financial Engineering
  - University of California at Berkeley
- Lecturer at ESSEC Singapore
  - Fixed Income
  - Alternative Assets
- Lived 11 years each in Germany and Hong Kong, now Switzerland
- Author “Invest Outside the Box”



## Benchmarks & Fundamentals

- What is the DAX 40?
- Some history
- Fundamentals
- Understanding futures vs index basis

## Micro Options & Strategies

- How index options work
- Why size matters
- Review of “the greeks”
- Sample trading strategies:
  - Outright call buy
  - Outright put buy
  - Outright put write
  - Vertical spreads
  - Calendar spreads
  - Straddles / strangles

# What is the DAX 40?



# Basics of the DAX

- Stands for “Deutscher AktieindeX”
  - literally “German Stock Index”
  - total return index => includes dividend reinvestment
- 2<sup>nd</sup> most liquid Continental index (after EURO STOXX 50®)
- Why Germany? As of 2022:
  - Largest economy in Europe, 4<sup>th</sup> largest globally
  - GDP slightly less than Japan, more than India
- Expanded from 30 to 40 members in September 2021, new names included Airbus, Porsche, HelloFresh, and Siemens Healthineers.
- Micro Index Options launched on 19 December 2022

# Not your Dad's DAX!

These are the 20 biggest components, 83% of index

Trading Symbol	Instrument	ISIN	Sector	Market Cap. (in Mio.)	Weight	Performance 15.12.2021 - 15.12.2022
LIN	LINDE PLC	IE00BZ12WP82	Materials	€ 113,754	10.6%	5.6%
SAP	SAP SE O.N.	DE0007164600	Information Technology	€ 86,291	8.0%	-18.0%
SIE	SIEMENS AG NA O.N.	DE0007236101	Industrials	€ 75,135	7.0%	-11.7%
ALV	ALLIANZ SE NA O.N.	DE0008404005	Financials	€ 70,902	6.6%	3.6%
DTE	DT.TELEKOM AG NA	DE0005557508	Communications	€ 65,160	6.1%	22.2%
AIR	AIRBUS SE	NL0000235190	Industrials	€ 53,517	5.0%	12.2%
BAYN	BAYER AG NA O.N.	DE000BAY0017	Health Care	€ 51,371	4.8%	13.5%
MBG	MERCEDES-BENZ GRP NA O.N.	DE0007100000	Consumer Discretionary	€ 44,837	4.2%	-5.7%
BAS	BASF SE NA O.N.	DE000BASF111	Materials	€ 37,338	3.5%	-17.1%
MUV2	MUENCH.RUECKVERS.VNA O.N.	DE0008430026	Financials	€ 36,370	3.4%	25.3%
DPW	DEUTSCHE POST AG NA O.N.	DE0005552004	Industrials	€ 32,348	3.0%	-29.3%
IFX	INFINEON TECH.AG NA O.N.	DE0006231004	Information Technology	€ 31,408	2.9%	-22.2%
DB1	DEUTSCHE BOERSE NA O.N.	DE0005810055	Financials	€ 31,270	2.9%	22.6%
VOW3	VOLKSWAGEN AG VZO O.N.	DE0007664039	Consumer Discretionary	€ 29,995	2.8%	-21.5%
RWE	RWE AG INH O.N.	DE0007037129	Utilities	€ 27,542	2.6%	23.9%
BMW	BAY.MOTOREN WERKE AG ST	DE0005190003	Consumer Discretionary	€ 23,838	2.2%	0.9%
ADS	ADIDAS AG NA O.N.	DE000A1EWWW0	Consumer Discretionary	€ 22,946	2.1%	-51.9%
MRK	MERCK KGAA O.N.	DE0006599905	Health Care	€ 21,499	2.0%	-18.3%
DBK	DEUTSCHE BANK AG NA O.N.	DE0005140008	Financials	€ 18,496	1.7%	-8.4%
EOAN	E.ON SE NA O.N.	DE000ENAG999	Utilities	€ 17,886	1.7%	-17.1%

Source: DWS ETF Holdings

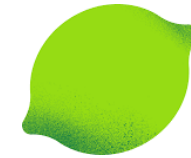
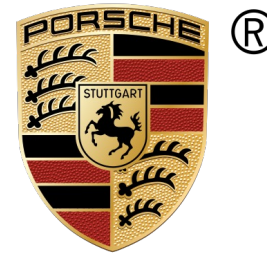
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# Some DAX Brands

Making our world  
more productive



**SIEMENS**  
*Ingenuity for life*



**HELLO  
FRESH**

**PORSCHE**

**Allianz** 



**AIRBUS**

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## Some news on Linde (top DAX component at ~10%)

- Linde will be dropped from the DAX on 27 Feb 2023
- Its replacement should be announced 17 Feb at 22:00 CET
- Linde is expected to delist from the Frankfurt exchange on 1 March 2023
  - Primary listing will be the existing US one (NYSE: LIN)
- Linde is only 0.5% of the S&P 500 vs 10% of the DAX, so this is far more material to the DAX
- Source: <https://qontigo.com/linde-to-be-removed-from-germanys-dax-benchmark-on-feb-27/>

# History, Performance, Fundamentals



# The long term chart

Remember: the DAX is a total return index



Source: Koyfin

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# Zooming in on 2022:



Source: Koyfin

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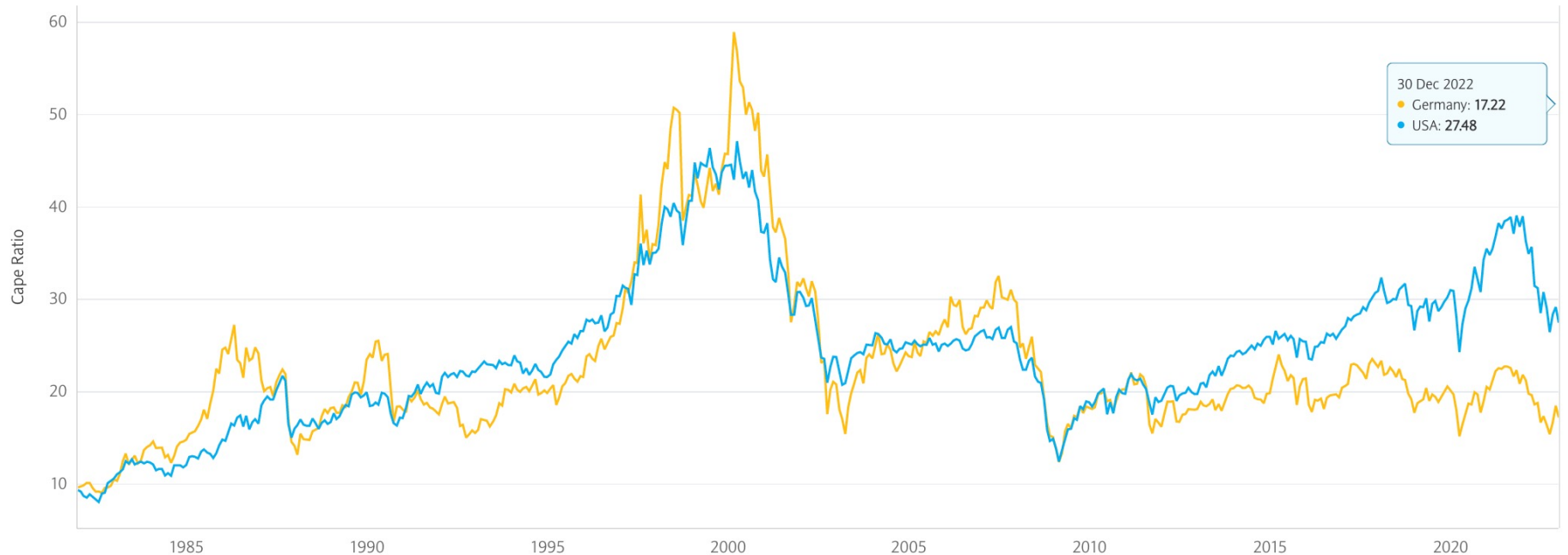


# CAPE Valuation Metric: Germany “historically cheap” vs US equities (MSCI USA ~ S&P 500)

## Historic CAPE<sup>®</sup> Ratio by country

View the historic CAPE<sup>®</sup> ratios for some of the largest economies in the world

Select a country in the chart below to compare historic CAPE<sup>®</sup> ratios over time.



Source: <https://indices.cib.barclays/IM/21/en/indices/static/historic-cape.app>

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# Rates are also a factor...



Source: Koyfin

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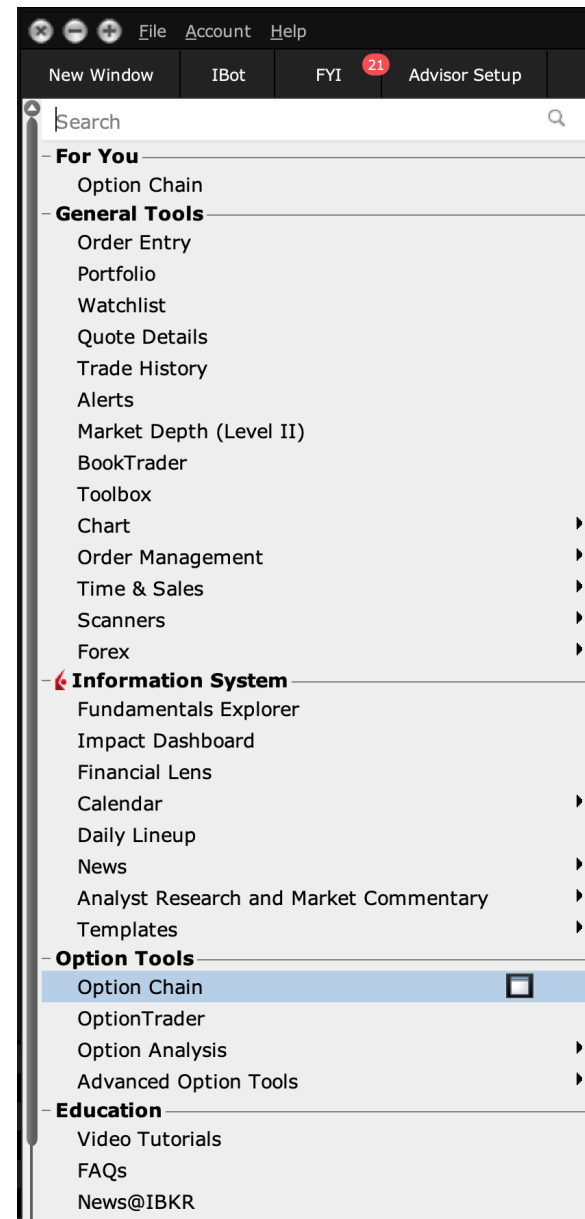
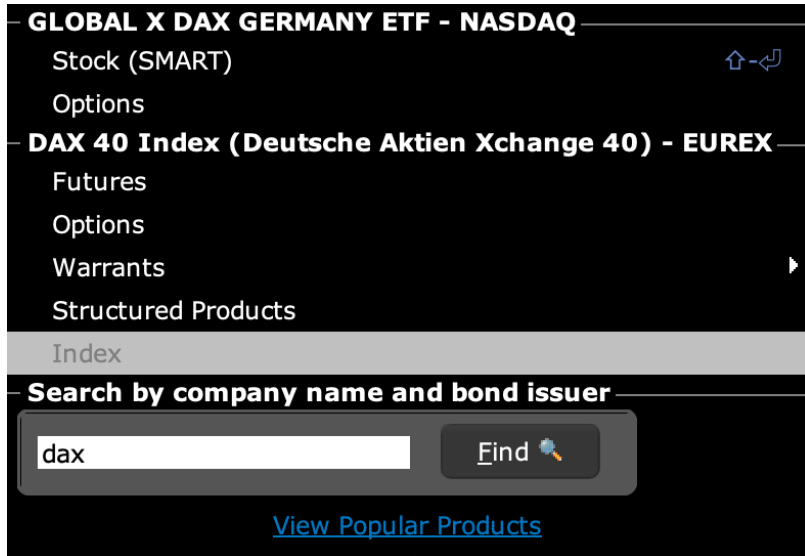
# About Index Options



# What and why index options

- Simple, cash-settled, exchange traded contract
- You must choose:
  - Expiry date
  - Strike level
  - Call or put
- Payoff is difference between index level at expiry date and strike price, paid out in cash
- That's really most of what there is to know – the rest is details in how you use and combine these options

Type “DAX” to find the index  
“Option Chain” to see the  
many different options next...



Source: IBKR TWS

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# Looking at that option chain

DAX INDEX PUT/CALLS (Side by Side) 15088.76 -4.35 (-0.03%) ?

APR 21 '23 ODA5 86 DAYS JUN 16 '23 ODA5 142 DAYS SEP 15 '23 ODA5 233 DAYS MORE

TABBED VIEW PUT/CALL All STRIKES EUREX TRADING CLASS 5

CALLS STRIKE PUTS IV: 16.1%

OPTN ...	VOLUME	BID	SI...	BID x ASK	DELTA	ASK	SI...	STRIKE	OPTN ...	VOLUME	BID	SI...	BID x ASK	DELTA	ASK	SI...
				300 ♦ 785.00 x 792.00 ♦	0.661		127	14700					368 ♦ 308.00 x 313.00 ♦	-0.339		127
				301 ♦ 749.00 x 756.00 ♦	0.647		127	14750	2				351 ♦ 322.00 x 327.00 ♦	-0.353		127
				225 ♦ 714.00 x 721.00 ♦	0.634		137	14800	10				225 ♦ 336.00 x 341.00 ♦	-0.366		75
				313 ♦ 679.00 x 686.00 ♦	0.620		131	14850					100 ♦ 352.00 x 357.00 ♦	-0.380		233
				319 ♦ 645.00 x 652.00 ♦	0.605		133	14900					150 ♦ 367.00 x 372.00 ♦	-0.395		127
				318 ♦ 612.00 x 619.00 ♦	0.590		149	14950					103 ♦ 384.00 x 389.00 ♦	-0.410		127
40				75 ♦ 580.00 x 586.00 ♦	0.575		139	15000		3			225 ♦ 400.00 x 406.00 ♦	-0.425		127
				314 ♦ 548.00 x 555.00 ♦	0.559		250	15050					225 ♦ 418.00 x 424.00 ♦	-0.441		127
10				323 ♦ 517.00 x 524.00 ♦	0.543		256	15100					100 ♦ 438.00 x 443.00 ♦	-0.457		127
				100 ♦ 488.00 x 494.00 ♦	0.526		127	15150					134 ♦ 457.00 x 463.00 ♦	-0.474		227
				324 ♦ 458.00 x 464.00 ♦	0.509		159	15200	171				225 ♦ 476.00 x 483.00 ♦	-0.491		127
10	4			75 ♦ 430.00 x 436.00 ♦	0.492		262	15250					225 ♦ 498.00 x 505.00 ♦	-0.508		229
	4			100 ♦ 403.00 x 408.00 ♦	0.474		158	15300		6			114 ♦ 521.00 x 527.00 ♦	-0.526		127
				175 ♦ 376.00 x 382.00 ♦	0.457		269	15350					225 ♦ 543.00 x 550.00 ♦	-0.543		127
				100 ♦ 351.00 x 356.00 ♦	0.439		169	15400					225 ♦ 567.00 x 574.00 ♦	-0.561		127
				325 ♦ 326.00 x 331.00 ♦	0.420		100	15450					225 ♦ 592.00 x 600.00 ♦	-0.580		127
				100 ♦ 303.00 x 308.00 ♦	0.402		261	15500					330 ♦ 619.00 x 626.00 ♦	-0.598		127
				176 ♦ 280.00 x 285.00 ♦	0.384		160	15550					225 ♦ 646.00 x 652.00 ♦	-0.616		52
69				75 ♦ 259.00 x 264.00 ♦	0.365		272	15600					225 ♦ 674.00 x 681.00 ♦	-0.635		52
71				75 ♦ 238.50 x 243.00 ♦	0.347		163	15650					225 ♦ 703.00 x 711.00 ♦	-0.653		127
2				75 ♦ 219.50 x 224.00 ♦	0.329		127	15700					225 ♦ 733.00 x 741.00 ♦	-0.671		127
				75 ♦ 201.00 x 205.00 ♦	0.311		100	15750					225 ♦ 765.00 x 773.00 ♦	-0.689		127

OFF Strategy Builder

Source: IBKR TWS, 25 Jan 2023, around 10am CET

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# Specs of the 15000 Put

- Expiry, Strike & Right
- EUR denominated
- €5/point means notional =  $15,000 \times \text{€}5 = \text{€}75,000/\text{contract}$
- New Micro-Dax is €1/point, so €15,000 per contract
- Remember this for strategies where we sell options

Stock Description	
<b>DAX 40 Index (Deutsche Aktien Xchange 40)</b>	
Security Type	OPT
Underlying	DAX IND
Contract Month	APR23
Expiration Date	APR 21 '23
Last Trading Date	APR 21 '23 13:00 MET
Strike	15000
Right	Put
Currency	EUR
Multiplier	5
Exchange	EUREX
Trading Class	ODAX
Symbol	P ODAX 20230421 15000 M
Product Type	Equity Index
Settlement Method	Cash
Exercise Style	European
<b>Trading Schedule:</b> January 25, 2023 <a href="#">Calendar</a>	
Total Available Hours	09:00 - 17:30 (16:00 - 00:30 your time)
Exchange Time Zone	MET
<b>Margin Information</b>	
<b>Margin Requirements Per Contract <a href="#">More</a></b>	
Initial (long)	100.00 %
Maintenance (long)	88.87 %
Initial (short)	7436.15 EUR
Maintenance (short)	5696.99 EUR

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## Sample option trade #1: Buy call option

- Assuming micro-sized, for full sized, multiply by 5
- Three options I'd consider buying, all April expiry:
  - 14,500 strike for €920 (70 delta)
  - 15,000 strike for €565 (56 delta)
  - 15,500 strike for €295 (38 delta)
- Net P&L table of these three options depending on the DAX:

	14,500	15,000	15,500
14,000	€ (920)	€ (565)	€ (295)
14,250	€ (920)	€ (565)	€ (295)
14,500	€ (920)	€ (565)	€ (295)
14,750	€ (670)	€ (565)	€ (295)
15,000	€ (420)	€ (565)	€ (295)
15,250	€ (170)	€ (315)	€ (295)
15,500	€ 80	€ (65)	€ (295)
15,750	€ 330	€ 185	€ (45)
16,000	€ 580	€ 435	€ 205
16,250	€ 830	€ 685	€ 455
16,500	€ 1,080	€ 935	€ 705

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## Why buy a call option instead of just buying futures / ETF?

- It's a matter of degree: 0 strike call is basically the same as buying a futures, or an ETF that cash settles on a date.
- Higher strike => more protection against index falling below that level, but also means paying more premium for that protection.
- Very well-defined cost-benefit for every index move over pre-defined time-frames
- Some investors prefer to keep most money in bonds, and spend the interest on call options, to get most of the upside with pre-defined downside.

## Sample option trade #2: Buy put option

- This pays you if the index goes down, so can be bought either for protection or speculative bearish view.
- Three options I'd consider buying, all April expiry, then table:
  - 14,500 strike for €275 (-31 delta)
  - 15,000 strike for €420 (-45 delta)
  - 15,500 strike for €650 (-65 delta)

	<b>14,500</b>	<b>15,000</b>	<b>15,500</b>
13,000	€ 1,225	€ 1,580	€ 1,850
13,250	€ 975	€ 1,330	€ 1,600
13,500	€ 725	€ 1,080	€ 1,350
13,750	€ 475	€ 830	€ 1,100
14,000	€ 225	€ 580	€ 850
14,250	€ (25)	€ 330	€ 600
14,500	€ (275)	€ 80	€ 350
14,750	€ (275)	€ (170)	€ 100
15,000	€ (275)	€ (420)	€ (150)
15,250	€ (275)	€ (420)	€ (400)
15,500	€ (275)	€ (420)	€ (650)

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## What about selling puts instead of buying?

- A common strategy to earn yield by providing downside protection to another investor wanting to buy puts.
- For example, sell 14,500 put for €275, can be considered a 1.9% premium (7.6% annualized) “yield” on the €14,500 put at risk, in addition to the interest you can earn on that €14,500.
- In theory, you could lose all €14,500 if the DAX goes to zero, but more likely, lose many times the premium received on a market crash.
- Like selling insurance, this trade is if you expect premium > losses.

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# A more detailed view on "Option Trader"

Quote Panel

Financial Instrument: DAX INDEX Bid Size Bid Ask Ask Size Last Position: 15063.18

Statistics

Financial Instrument	Opt. Volume	Pt/Cll Vlm	Opt. Vlm Ch...	Hst. VI Cls %	IV Last	IV Change	Pt/Cll Intrst	IV Close	Hist. Vol. %	Hst. VI. Chng
DAX INDEX				12.703%	15.5%	0.086	2.18	15.365%	12.516%	-0.187

Buttons: Add Underlying, Preview Order/Check Margin Impact, Close Position, Reverse Position, View Account

Trading: Orders, Log, Trades, Portfolios, Strategy Builder

Option Chains

FEB 17 '23 (23 DAYS), MAR 17 '23 (51 DAYS), APR 21 '23 (86 DAYS)

TABBED VIEW PUT/CALL All STRIKES EUREX ODAX 5 My Chains IV: 16.2%

CALLS				PUTS									
BID x ASK	LAST CHANGE	DELTA	GAMMA	VEGA	THETA	STRIKE	BID x ASK	LAST CHANGE	DELTA	GAMMA	VEGA	THETA	
917.00 x 924.00	c952.70	0.699	0.000	25.444	-3.395	14500	267.00 x 271.00	c265.80	-0.301	0.000	25.444	-2.426	
879.00 x 886.00	c914.40	0.687	0.000	25.885	-3.404	14550	278.00 x 283.00	c277.20	-0.313	0.000	25.885	-2.432	
842.00 x 848.00	c876.70	0.675	0.000	26.310	-3.410	14600	291.00 x 295.00	c289.10	-0.325	0.000	26.310	-2.435	
805.00 x 812.00	c839.50	0.662	0.000	26.721	-3.417	14650	304.00 x 308.00	c301.60	-0.338	0.000	26.721	-2.439	
769.00 x 775.00	c802.80	0.649	0.000	27.102	-3.413	14700	317.00 x 322.00	c310.00	-4.70	0.000	27.102	-2.431	
733.00 x 740.00	c766.80	0.635	0.000	27.465	-3.410	14750	331.00 x 336.00	c328.40	-0.365	0.000	27.465	-2.425	
698.00 x 704.00	c731.40	0.621	0.000	27.800	-3.402	14800	346.00 x 351.00	c340.00	-2.70	0.000	27.800	-2.413	
664.00 x 670.00	c696.70	0.607	0.000	28.106	-3.392	14850	361.00 x 366.00	c353.00	-4.70	0.000	28.106	-2.400	
630.00 x 637.00	c662.70	0.592	0.000	28.378	-3.373	14900	377.00 x 382.00	c370.00	-3.40	0.000	28.378	-2.377	
598.00 x 603.00	c629.40	0.576	0.000	28.616	-3.356	14950	394.00 x 399.00	c385.00	-4.70	0.000	28.616	-2.357	
566.00 x 572.00	c596.70	0.561	0.000	28.814	-3.332	15000	411.00 x 417.00	c402.00	-4.80	0.000	28.814	-2.330	
534.00 x 539.00	c564.80	0.545	0.000	28.970	-3.302	15050	430.00 x 435.00	c424.50	-0.455	0.000	28.970	-2.297	
504.00 x 509.00	c533.60	0.528	0.000	29.080	-3.266	15100	449.00 x 454.00	c443.00	-0.472	0.000	29.080	-2.257	
474.00 x 479.00	c503.10	0.511	0.000	29.141	-3.229	15150	469.00 x 475.00	c460.00	-2.30	0.000	29.141	-2.217	
445.00 x 450.00	c473.60	0.494	0.000	29.150	-3.182	15200	489.00 x 495.00	c482.40	-0.506	0.000	29.150	-2.167	
418.00 x 422.00	c426.00	-19.00	0.477	0.000	29.105	-3.138	15250	512.00 x 517.00	c503.60	-0.523	0.000	29.105	-2.119
391.00 x 396.00	c400.00	-17.60	0.459	0.000	29.001	-3.082	15300	534.00 x 540.00	c526.00	+0.20	0.000	29.001	-2.060
365.00 x 370.00	c391.00	0.441	0.000	28.838	-3.023	15350	558.00 x 564.00	c549.00	-0.559	0.000	28.838	-1.998	
340.00 x 345.00	c365.40	0.423	0.000	28.614	-2.961	15400	583.00 x 589.00	c584.00	+11.00	0.000	28.614	-1.932	
316.00 x 321.00	c340.50	0.405	0.000	28.326	-2.892	15450	608.00 x 615.00	c597.90	-0.595	0.000	28.326	-1.860	
293.00 x 298.00	c316.60	0.387	0.000	27.974	-2.819	15500	635.00 x 642.00	c623.70	-0.613	0.000	27.974	-1.784	

Source: IBKR TWS, 25 Jan 2023, around 10am CET

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## How to understand and use those “greeks”

- Delta = most likely the main one you will use:
  - How much the option price moves vs change in index
  - Also implied probability of option finishing in the money
- Gamma = change in delta vs index level, most significant as option nears expiry with index near strike
- Vega = proportional to gamma, sensitivity to implied vol
- Theta = time decay, short hopes no move, long hopes big move
- Implied vs realized vol: forward versus backward, including risk premium.

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# Trading with “Strategy Builder”

DAX INDEX PUT/CALLs (Side by Side) 15004.16 -88.95 (-0.59%)

APR 21 '23 ODAX 5 86 DAYS JUN 16 '23 ODAX 5 142 DAYS SEP 15 '23 ODAX 5 233 DAYS MORE

TABBED VIEW PUT/CALL ALL STRIKES EUREX TRADING CLASS 5

CALLS						PUTS										
OPTN ...	VOLUME	BID	SI...	BID x ASK	DELTA	ASK	SI...	STRIKE	OPTN ...	VOLUME	BID	SI...	BID x ASK	DELTA	ASK	SI...
40	320	535.00	543.00	535.00 x 543.00	0.535	127	15000	15000	4	267	442.00	448.00	442.00 x 448.00	-0.465	226	
		96	507.00	512.00	0.519	52	15050	15050			358	461.00	467.00	-0.481	102	
10	100	476.00	483.00	476.00 x 483.00	0.503	127	15100	15100			362	481.00	487.00	-0.497	100	
		156	448.00	455.00	0.486	255	15150	15150		5	356	502.00	509.00	-0.514	290	
	1	100	420.00	426.00	0.469	52	15200	15200	171		341	524.00	531.00	-0.531	131	
10	4	118	394.00	400.00	0.451	244	15250	15250			320	547.00	554.00	-0.549	180	
	4	125	368.00	374.00	0.434	246	15300	15300		6	150	571.00	577.00	-0.566	90	
		129	343.00	349.00	0.416	251	15350	15350			322	595.00	602.00	-0.584	87	
	1	133	319.00	325.00	0.398	256	15400	15400		11	309	621.00	628.00	-0.602	89	

IV: 16.7%

Strategy Builder Strategies

ACTN	RT	LST TRD DAY	STRIKE	TYPE	DELTA	THETA	BID/ASK	SIZE	
Buy	1	APR 21 '23	15000	Call	0.535	-3.354	535.00 x 543.00	320 x 127	Delayed
Sell	1	APR 21 '23	15500	Call	0.363	-2.771	273.00 x 280.00	338 x 264	Delayed
Apr 15000/15500 Bull Call					0.173	-0.582	255.0 x 270.0	264 x 127	Delayed

Clear All Legs + PROFILE + Add to Watchlists

255.0 270.0  
BID MID ASK

Order LMT QTY 1 LMT PRC 0.00 DAY advanced Submit Order

Source: IBKR TWS, 25 Jan 2023, around 11am CET

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## How this “vertical spread” works

- For a limited amount at risk, capture a very well-defined rise in the index, between 15,000-15,500 by April, in this case.
- Delta and theta are much reduced – this looks much more like a “binary” / “digital” exposure with an almost 2:1 payout if the index rises 15,500 or more. Market crash or flat, maximum loss is the ~€270 premium
- Call spreads look more expensive versus put spreads due to “skew” => more small rises vs fewer large declines
- Done regularly, this is similar to what variable annuities do

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## Another type of spread: calendar spreads

- Example of this trade: sell April 15,000 call for 525, buy June 15,000 call for 760.
- Much trickier strategy to model, since at April expiry you still have a June option, not just the defined payout, but can be useful if you have more of a view on timing than index level.
- Note the trade is net long theta – this is because the short April call “decays” in value faster than the June call
- Best case: the DAX hits the April expiry at or slightly below 15,000, the April call funded a discount on your June
- Worst case: big move in either direction loses the spread

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# A complex buy intriguing strategy: "Iron Condor"

DAX INDEX PUT/CALLS (Side by Side)
14973.94
-119.17 (-0.79%)

APR 21 '23  
ODAX  
5  
86 DAYS

JUN 16 '23  
ODAX  
5  
142 DAYS

SEP 15 '23  
ODAX  
5  
233 DAYS

MORE ▾

TABBED VIEW ▾ PUT/CALL ▾ All STRIKES ▾ EUREX ▾ TRADING CLASS ▾ 5

CALLS						PUTS						
OPTN ...	VOLUME	BID	SI...	BID x ASK	DELTAASK SI...	STRIKE	OPTN ...	VOLUME	BID	SI...	BID x ASK	DELTAASK SI...
			410	435.00 x 441.00	0.494 100	15150		5	150		520.00 x 526.00	-0.506 52
	1	100		409.00 x 416.00	0.477 171	15200	171	150			542.00 x 549.00	-0.523 52
10	4	100		383.00 x 390.00	0.459 358	15250		150			565.00 x 572.00	-0.541 52
	4	100		357.00 x 364.00	0.442 177	15300		6	150		590.00 x 596.00	-0.558 52
			344	332.00 x 338.00	0.424 184	15350		150			614.00 x 622.00	-0.576 52
	1	251		309.00 x 314.00	0.406 100	15400		11	150		641.00 x 648.00	-0.594 52
			100	287.00 x 293.00	0.388 105	15450		150			668.00 x 675.00	-0.612 52
			349	265.00 x 270.00	0.370 100	15500		150			697.00 x 704.00	-0.630 52
			100	245.00 x 251.00	0.352 105	15550		150			725.00 x 732.00	-0.648 52

ON Strategy Builder Strategies ▾

ACTN	RT	LST TRD DAY	STRIKE	TYPE	DELTA	THETA	BID/ASK	SIZE	
× Leg 1 Buy	1	APR 21 '23	14500	Put	-0.316	-2.488	300.00 x 306.00	314 x 152	Delayed
× Leg 2 Sell	1	APR 21 '23	15000	Put	-0.457	-2.346	458.00 x 464.00	150 x 152	Delayed
× Leg 3 Sell	1	APR 21 '23	15000	Call	0.543	-3.348	523.00 x 531.00	52 x 315	Delayed
× Leg 4 Buy	1	APR 21 '23	15500	Call	0.370	-2.785	265.00 x 272.00	262 x 193	Delayed
Apr 14500/15000 15000/15500 Iron Condor					-0.033	0.421	-428.0 x -404.0	152 x 100	Delayed

Clear All Legs
+ PROFILE
+ Add to Watchlists

◆ -428.0    -404.0 ◆

BID    MID    ASK

Order LMT ▾ QTY 1 LMT PRC 0.00 DAY ▾ advanced +

Submit Order

Source: IBKR TWS, 25 Jan 2023, around 11am CET

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## The appeal of Iron Condors

- In this case, we receive €404 premium up-front, and the most we would ever have to pay back is €500 if the index moves more than 500 point in either direction between now and April.
- This version only nets the maximum €404 profit if the index finishes at exactly 15,000.
- There are variants on this where the middle two strikes are spread out, providing a range of maximum payoffs, and also where more options are bought at the tails than sold in the middle.

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## Bottom line: Fine-tuning your DAX index option strategy

- First, consider the time horizon and period that works best for you:
  - Annual, semi-annual, quarterly, or
  - Monthly, or even weekly or more frequently
- Have a model for your expected range for the DAX over that timeframe, and how that fits into your overall portfolio.
- Decide which option position is best for your portfolio that period (outright buy/sell, spread, etc.)
- Be ready to revise this plan and roll your option positions regularly.

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## Other markets to trade as a spread against DAX

- TecDAX options or futures (TDX), MDAX futures only.
- Bund futures options or futures (GBL) – German bonds vs German stocks
- EURO STOXX 50® (ESTX50) – liquid Germany vs Europe
- CAC40, FTMIB – options and futures on more specific national markets of France and Italy
- Micro S&P 500 (MES) futures options and futures, or UK FTSE 100 options or futures (Z), though these trade in non-EUR currency and the latter is full-size only.

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