



AN OVERDUE RHINO UPDATE

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Rhinos & Flies

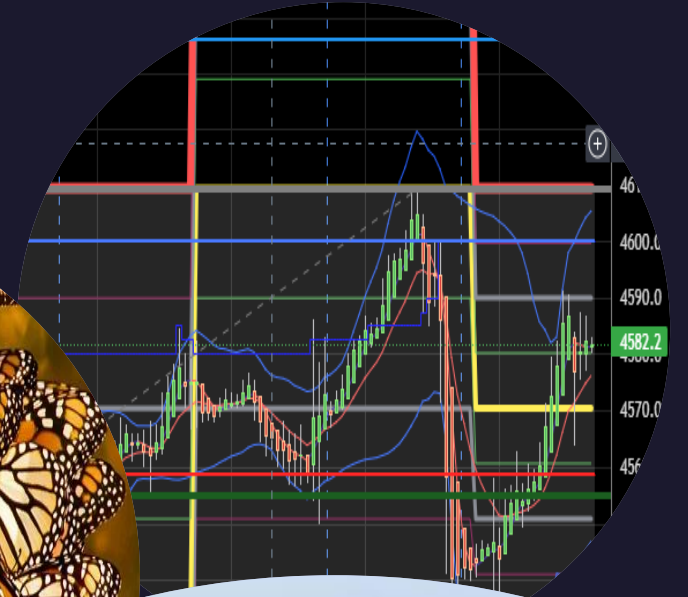
Recap

Reading the market

Dealers & Hedgers

Keeping nimble

Topic five





Introduction

- The Rhino was originally designed by Brian Larson about 10 years ago to combine a BWB based strategy with an upside hedge. It is quite versatile and adaptable to various volatility environment.

Recap

Strategy evolution in an ever-changing market

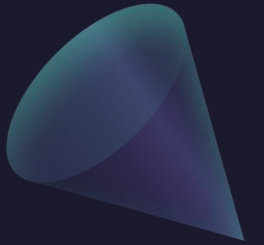
Recap

A CONSERVATIVE BWB STRATEGY

- A Put BWB foundation
 - Near ATM Upper Longs (theoretically)
 - Flexible Wing Size
- Relatively low maintenance.
- Ruling principle: Flat Delta over a large range (up to a 7-day projection)

RUN ON PROFESSIONAL METRICS

- Margin to Equity Ratio
- Margin over Theta Ratio
- Equity over Vega Ratio
- Controlled VaR
- Limited PM leverage



A changing market environment

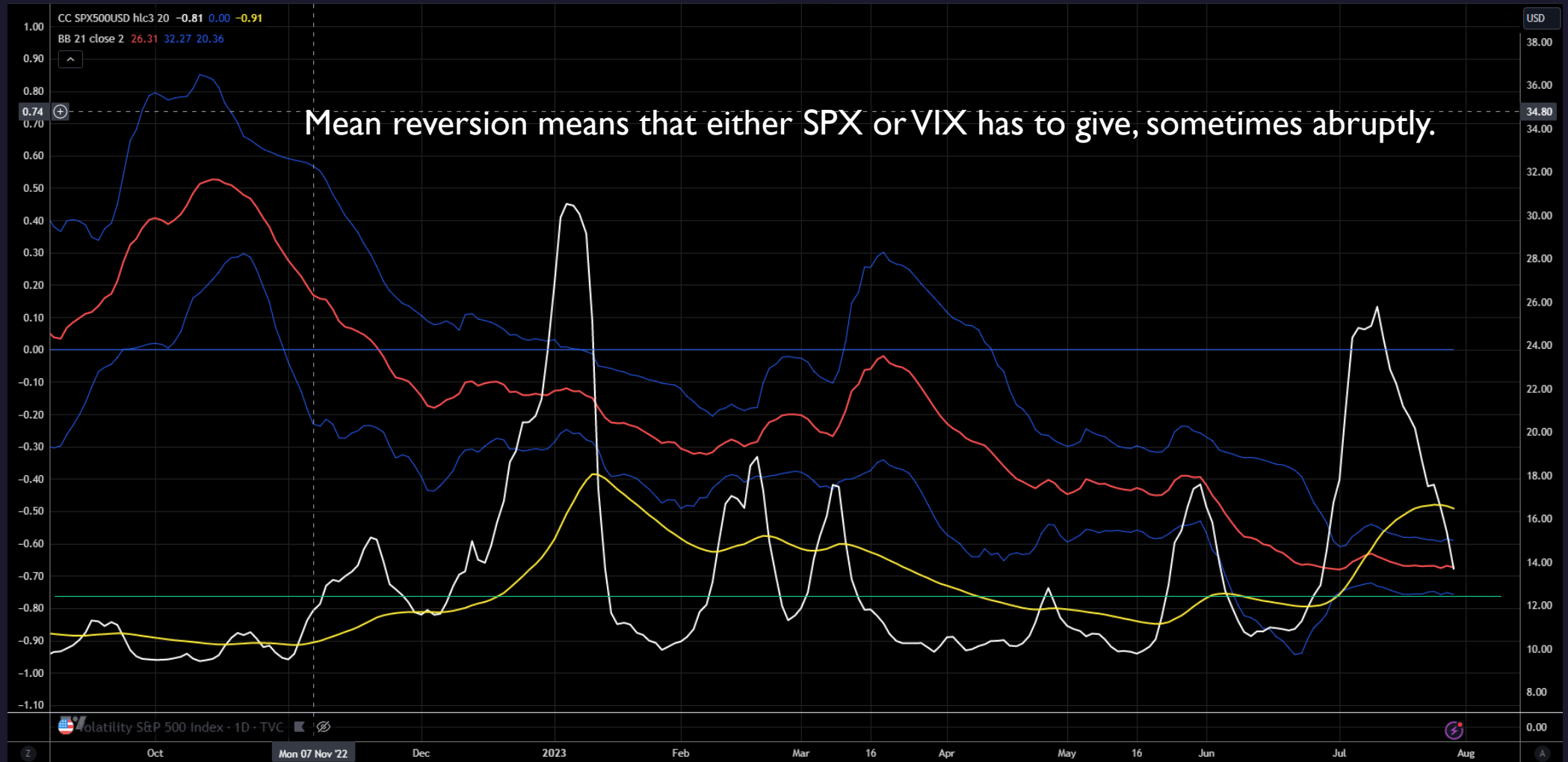
Same old same old: Adapt or die...

Rapid changes in volatility regimes

- The SPX-VIX correlation can be unstable and depart largely from its long-term average of ~75%
 - The market is sometimes Over-Vixed or Under-Vixed.
- SPX can move unbridled in leaps and bounds for no obvious reasons, except maybe for a never satisfied appetite for large techs.
 - When interest rates were rock bottom, a number of banks and pension funds allocated into such investments as bond-like, i.e., low risk.
- Higher volatility was a “comfort zone”
 - Lower capital consumption
 - Better pricing for combos... And adapting can be difficult (disbelief sometimes disarray...)

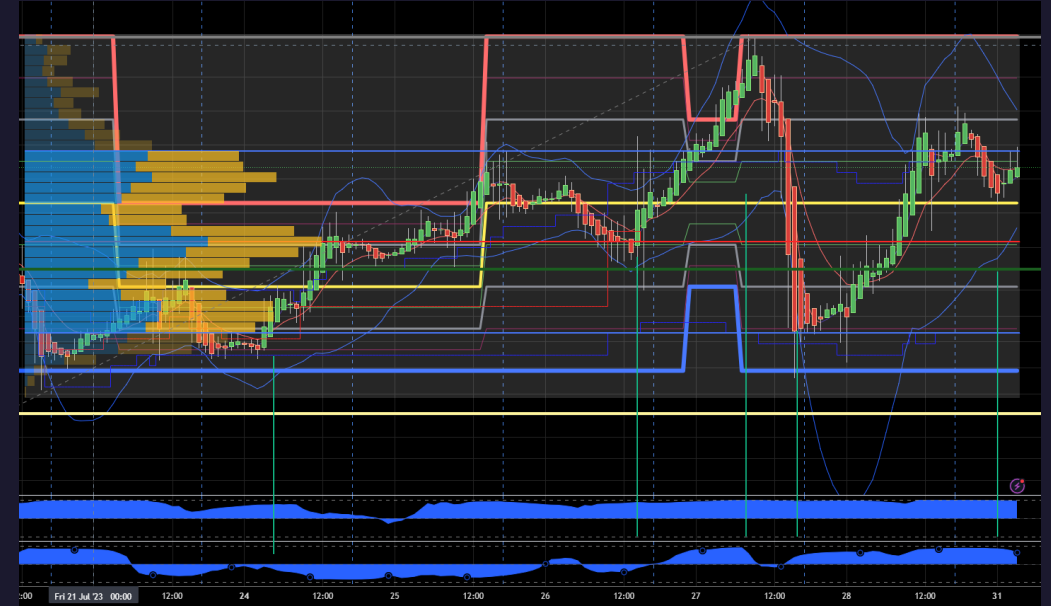


SPX versus VIX



Changes in Interest Rates

- Rates are still low: Rho has little to no impact yet.
- Higher rates have limited impact on cash-flush companies, besides a potential lower consumer demand if higher rates slow the economy down.
- Possible correlation to EURUSD
 - A weaker greenback is commonly bullish for SPX



Reading the market

Connecting the dots

MARKET ANALYSIS: CHARTING

- A so-called Delta neutral strategy is not a market-neutral strategy
 - Keep it simple though
 - Only Support-Resistance levels
 - Standard patterns, e.g. Fibs
- Look at market movers, such as the Tech Titans.
- As well as similar levels on highly correlated indices (NDX, DJI) or synthetic mixes (GAMMA-T*)



One Hour SPX snapshot
taken over the weekend

* GOOG, AAPL, MSFT, META, AMZN – TSLA

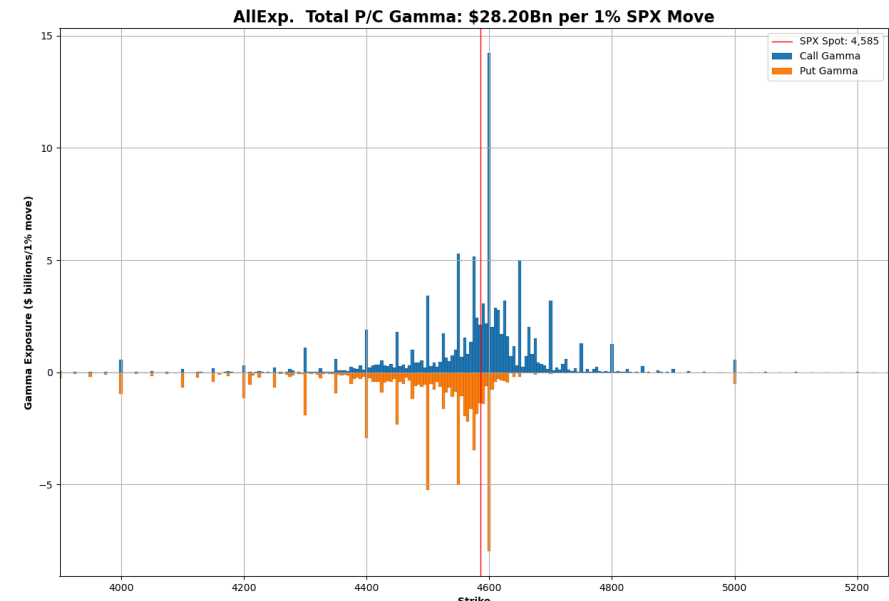
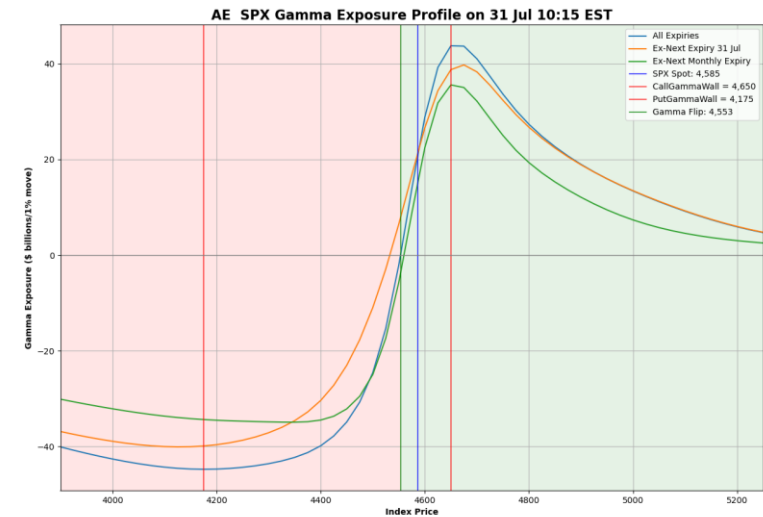
MARKET READING: ROUTINE

- To each his or her own. Mine is followed strictly every day
 - 2 reports a day: in the morning (before 2AM EST) and premarket (from 6:30AM to ~9AM)
 - Prepare for adjustments if any, ahead of the session
 - Calculate GEX & VEX
 - Correlation between major equity indices are high: look for salient support/resistance on NDX and DJI
 - Monitor economic / earnings calendar

SPX snapshot taken over the weekend

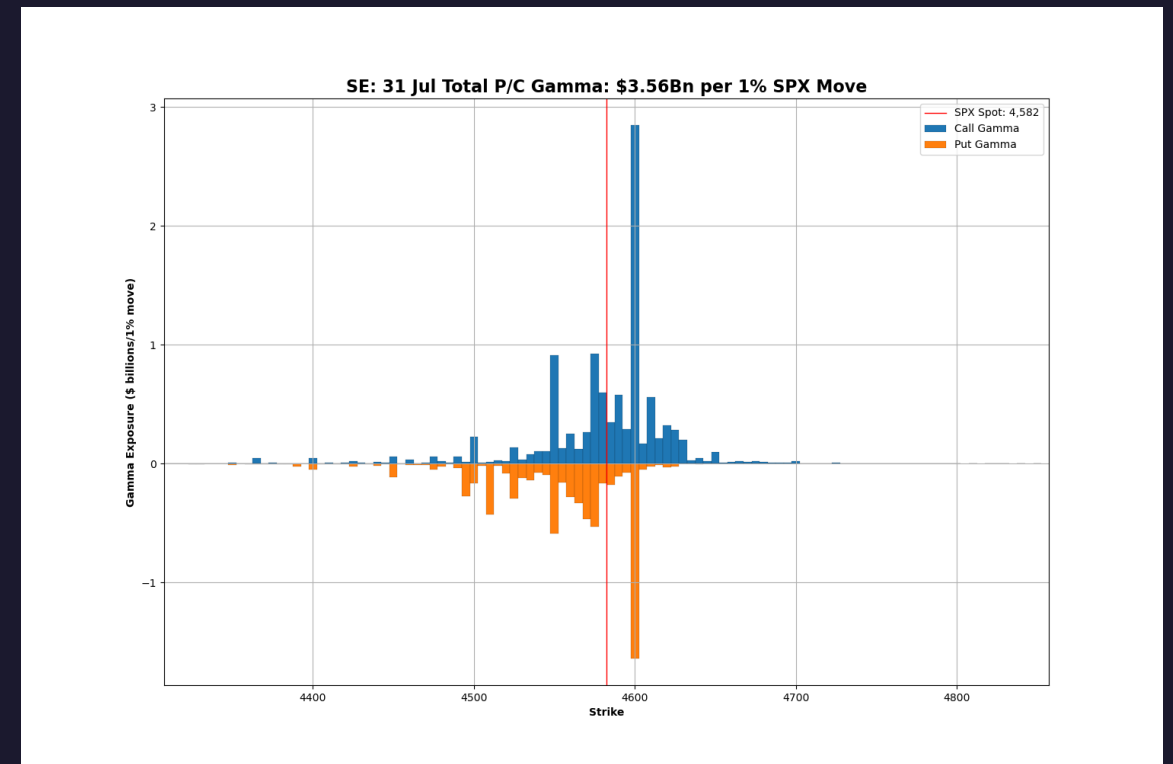
GEX & VEX

- SPX, other indices and in fact all CBOE traded options are all part of a Dealers / Hedgers Market.
- Dealers must always balance their books:
 - They act on Gamma and Vanna by buying or selling futures (ES for SPX)
 - Their intervention often moves SPX more than actual buying / selling on the spot market.
- The topic is complex, in particular VEX (Volatility Hedging)
- Calculations require Option Interest, which is provided once a day by CBOE unless one has access to a premium data provider where OI is updated from volume. If one only has access to standard CBOE data, Gamma may be erroneous as the day passes by.
- Gamma is de facto a momentum indicator.



0DTE ACTIVITY (1)

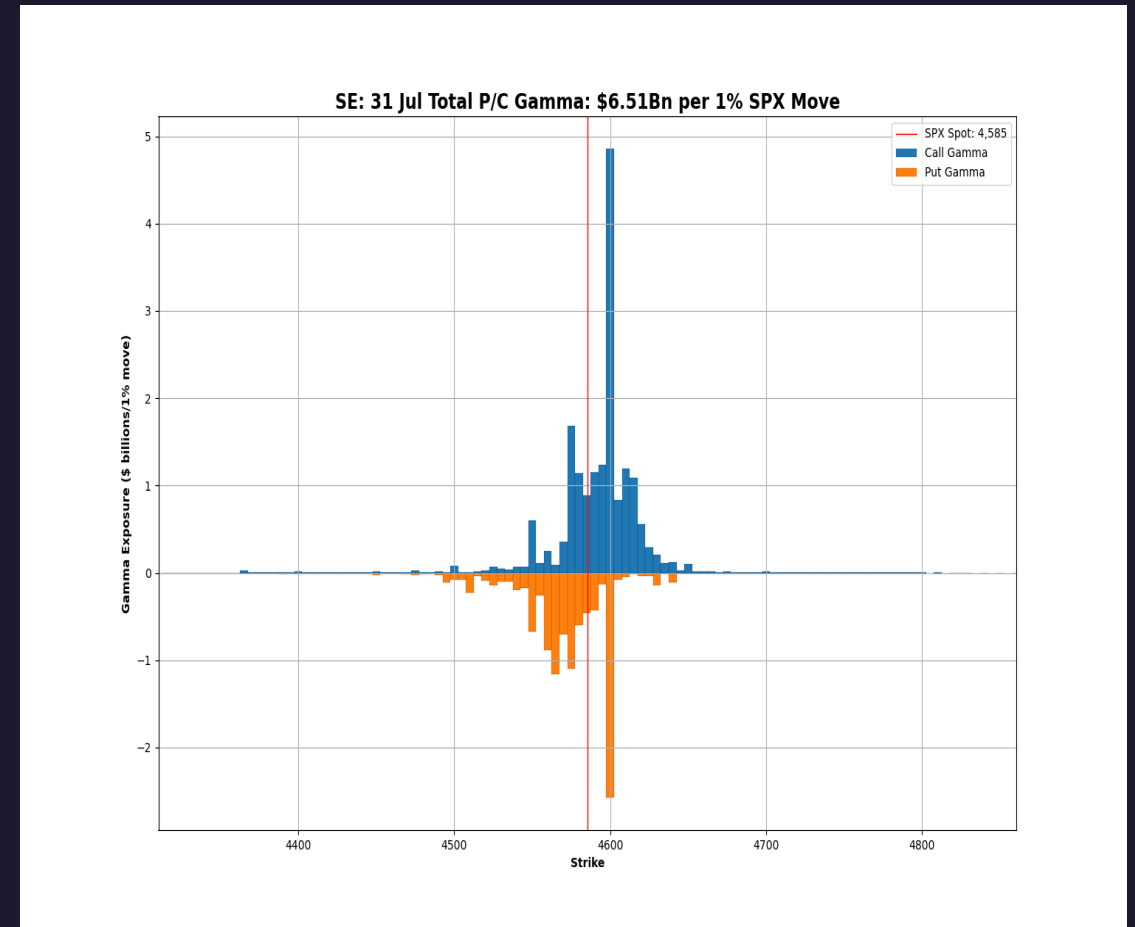
- 0DTE used to be limited to regular monthly and month-end expirations
 - Followed by Friday weeklies
 - Now, it is about every single day
- 0DTE Trading activity sometimes reaches 50% of CBOE volume
- Therefore, caution is recommended on OpEx days.



Gamma snapshot taken over the weekend

0DTE ACTIVITY (2)

- The 0DTE hedging picture can be volatile
- It gives an expected “attractor” in this example: bullish congestion towards 4600.
- As well as the likely day range, roughly 3550-4620, which is in line with a one SD projection from the previous close. In this example: ~31 points in either direction from 4582



GAMMA SNAPSHOT TAKEN MONDAY 31ST

Adapting to lower Volatility

Changes in the Rhino approach in recent
years

Lower Volatility = Higher Risk.

- Decay comes in later
 - Trades mature more slowly
 - The IV Skew is flatter
- Whipsaws can be harmful
 - Caution with rolls
- Preferably use more conservative combos at least initially
 - Add-ons can be reduced wing size BWB



What hasn't changed.

- Same type of vol dependent BWB entry around 77DTE
- Same flat to marginally negative Delta, flat Gamma principle
- Flexibility along the life of the trade
 - Use narrower BWB for later adjustments
- Prefer 25-point strikes for higher liquidity
- The classic Rhino guidelines are basically a “damage control” in runaway markets.
- The decision tree look incomplete.

From the last “An Evolving Rhino” Presentation

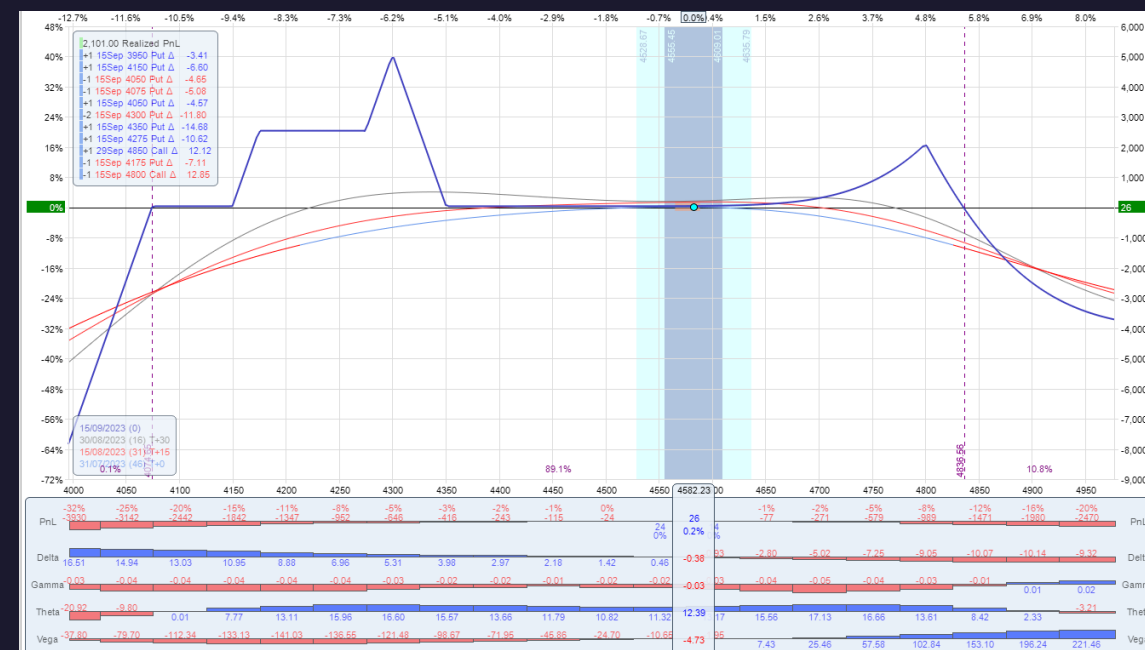
- BWB Wing Sizes are now Volatility dependent. A rule of thumb could be:
 - High Vol (VIX above 3rd quartile, around 19.5): larger wing sizes e.g., 125/100
 - Normal Vol: standard wing sizes, e.g., 100/75
 - Low Vol (VIX below 1st quartile, around 12.5): reduced wing sizes, e.g., 75/50
- PCS/PDS wing ratio: around 1.2
- PCS Wing – PDS Wing: constant, same for capital usage
 - This is not a prerequisite : just simpler this way.
 - Again, OTM PDS are weaker.

What has changed.

MORE FLEXIBILITY

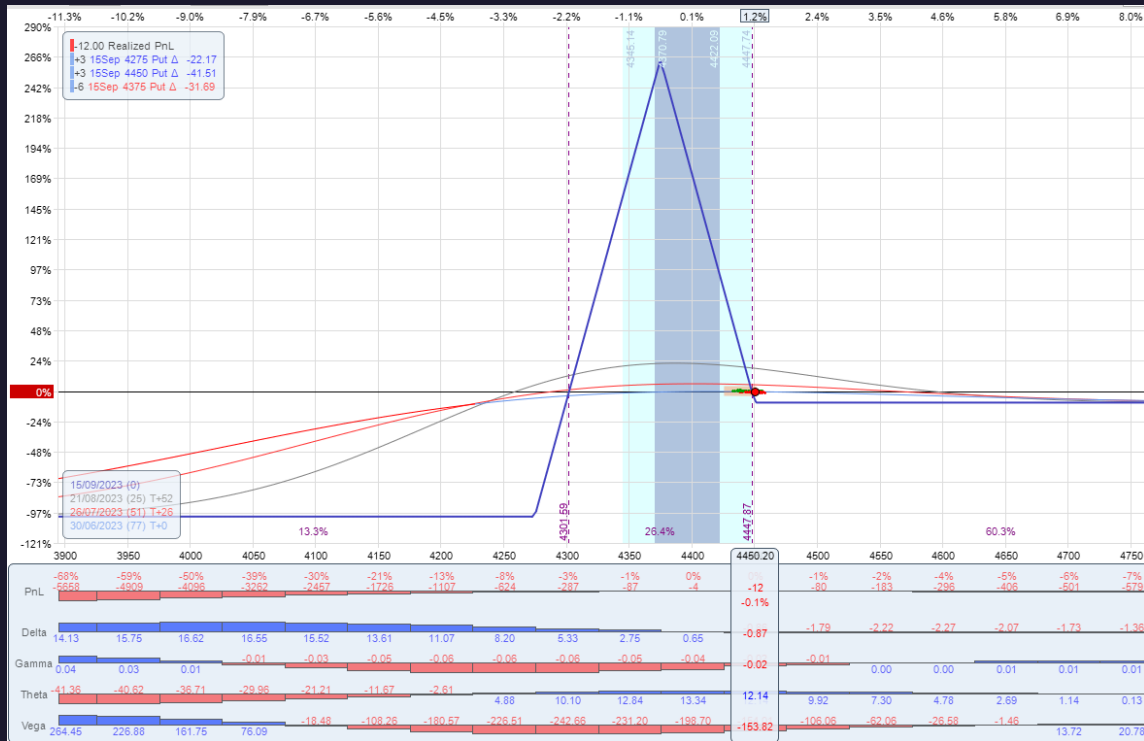
- The typical BWB (on 25-point strikes in my book) can sometimes be substituted for a split-strike BWB
- Sometimes substitute Call Calendars for Diagonals if the approach was to “go with the flow” i.e., protect the upside in a runaway market damage control.
 - Still effective if SPX pulls back without going outright bearish (lower Vega exposure)
- In case of a “totally lost” numbness about market direction: keep a Delta/Vega ratio reasonable
 - Roughly 1% in “cruising altitude”, then 2% in “descent / approach”.

SEP RHINO WITH A CALL DIAGONAL

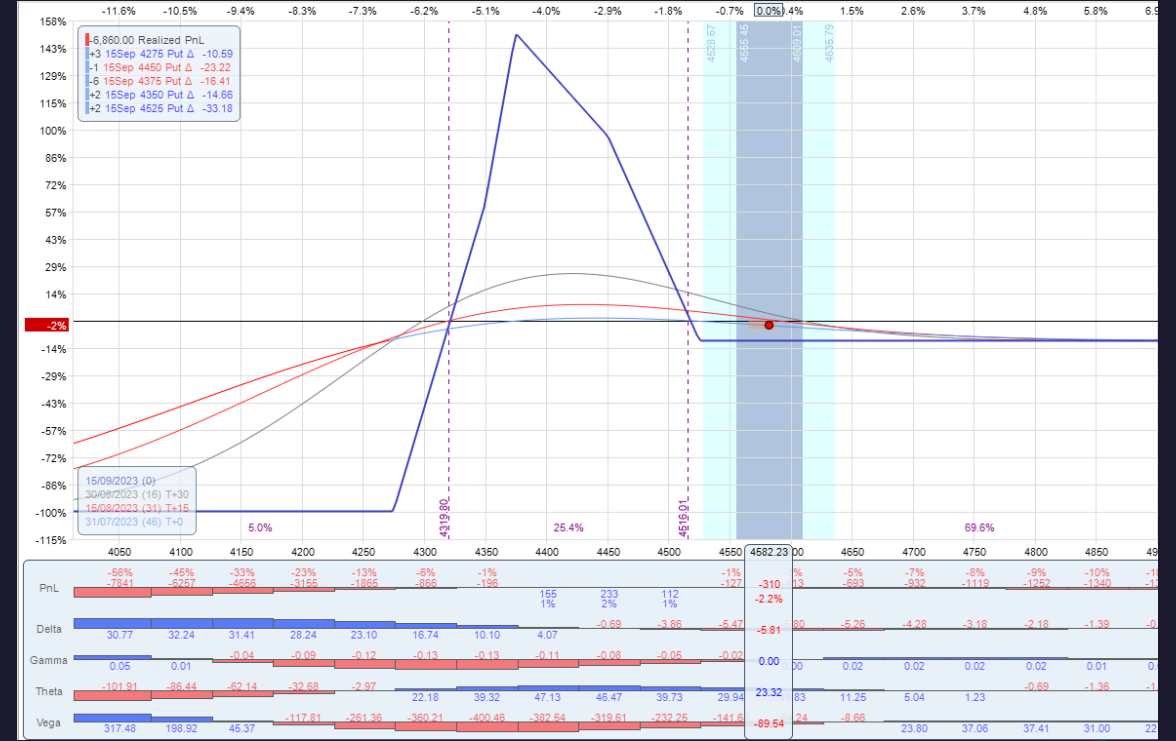


A recent example: Sep 23 entry.

ENTRY JUNE 30TH



MONDAY JULY 31ST



What to do when guidelines fail

- Go with the flow, i.e., the market momentum using GEX for instance.
- Monitor all 4 standard Greeks, instead of only Delta
 - Don't let Theta drop
 - Don't let your initial BWB turn Vega positive
 - Look at Vomma, Vanna or Charm, particularly in the late stage of the trade.
- Be flexible with adjustments, while always following the prevailing principle: flat Delta over a large range.



My own flaws

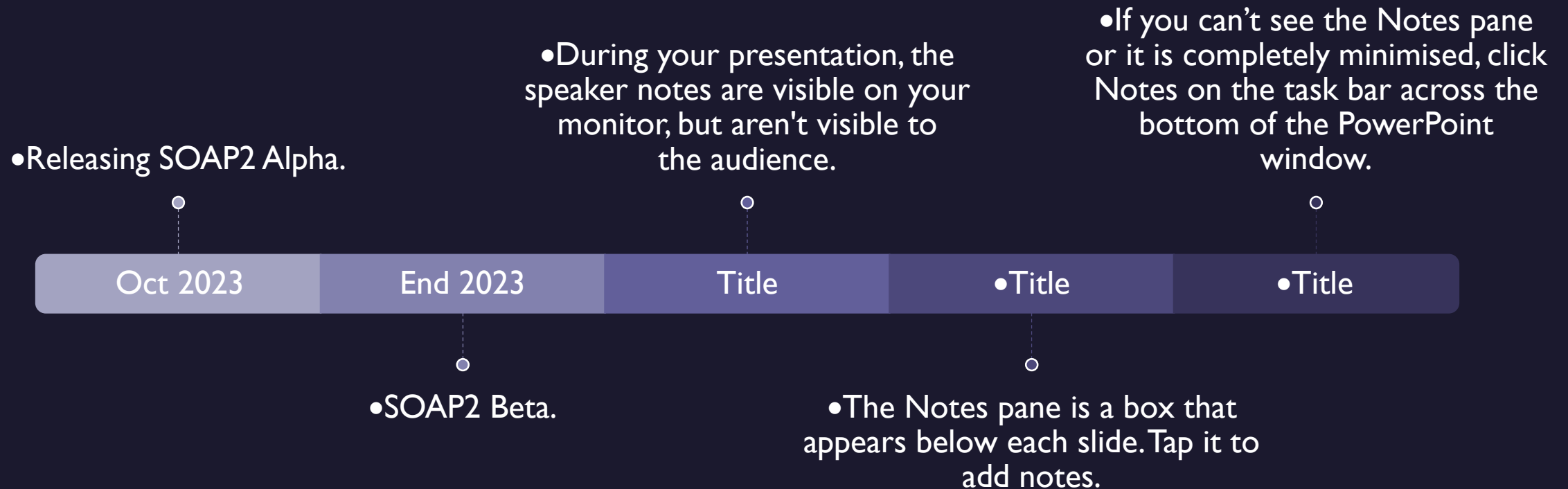
- Not only do the homework but stick with it.
- Dwell too long with a cycle that has little profit potential.
 - Best is to reduce that cycle and move on to the next cycle.
- Allocate sufficient time for trading.



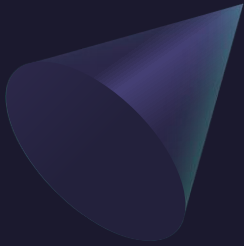
Always adapt the
Rhino guidelines
to your risk profile
and expectations.



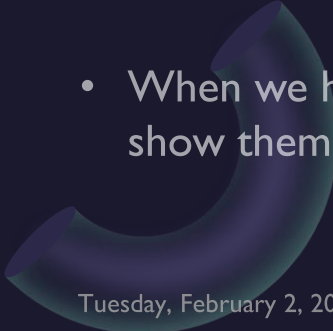
Timeline



Conclusion



ADAPT METRICS TO YOUR TRADING PROFILE

- MtE 
 - Add transitions, animations, and motion.
 - Save to OneDrive, to get to your presentations from your computer, tablet, or phone.
 - Open the Design Ideas pane for instant slide makeovers.
 - When we have design ideas, we'll show them to you right there.
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BE MORE FLEXIBLE

- Add text, images, art, and videos.
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- Save to OneDrive, to get to your presentations from your computer, tablet, or phone.
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SUBTITLE

- Add text, images, art, and videos.
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Summary

The Rhino is still versatile and adaptable, however maybe less of a beginner's trade. There have been many warnings in past presentations.

Thank You

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Slack: Rhinos & Flies

https://join.slack.com/t/bwbflies/shared_invite/zt-1zltmb790-C~HbsDhtX4lLzeW~evd1rQ (Valid until mid August)

