

Trade: A 6m 110% calls financed by 6m 90% puts in a ratio of 4 calls bought per put sold has zero net premium (spot ref: 1998)

Very high demand for SPX puts makes it possible to buy multiple calls for each call sold
Across major indices, the ratio of calls-to-puts is highest for US equities

Skew (y-axis) vs ATM vol (x-axis) is stretched
(Embedded image moved to file: pic22978.gif)

Source: Bloomberg 24-Sep-2014

Renewed interest in Japanese equities ahead of GPIF re-allocation and policy momentum

Trade: A 6m 110% call financed by 6m 90% put has zero net premium (spot ref: 16374)

Investors are waiting for the giant Japanese pension funds to re-allocate away from bonds to equities

The Abe administration is looking for additional ways to stimulate the economy

Nikkei vols are high and skew is poor -- no easy way to get into the trade, best to do calls vs puts 1-to-1 struck around major technical levels

Chart showing NKY history with strike of 90% put highlighted
(Embedded image moved to file: pic30403.gif)

Source: Bloomberg 25-Sep-2014

Past performance is not a reliable indicator of future results.

The trading and investment ideas discussed herein are general and do not take into account a client's particular circumstances (including his or her tax situation), investment guidelines, investment goals, restrictions or needs. This is not an offer, recommendation or solicitation to buy or sell, nor is it an official confirmation of terms. It is based on information from sources believed to be reliable. No representation is made that it is accurate or complete or that any returns indicated will be achieved. Changes to assumptions may have a material impact on any returns detailed. Price and availability are subject to change without notice. The investment ideas presented herein are subject to investment risk, including possible loss of principal. The past performance of securities or other instruments does not necessarily indicate or predict future performance and the value of investments and income arising therefrom can decrease as well as increase, the investor may get back less than was invested and no assurance can be given that any trade idea or investment described herein would yield favorable investment results.

This material contains references to various over-the-counter (OTC) options. Any offer of an OTC option eventually made may contain terms which are substantially different, and must be read in conjunction with the ISDA Master Agreement and ISDA Credit Support Annex. Full details of the terms and conditions, including risk factors and tax treatment, associated with this instrument are described in the ISDA documents, which should be read carefully before investing. Opinions and estimates may change without notice, and involve a number of assumptions which may not prove valid. This material does not purport to summarize all of the conditions, covenants, representations, warranties, and other provisions of these instruments.

Derivatives are financial transactions based upon one or more predetermined market factors where periodic payments (or a one-time lump-sum payment) are made by each of the parties to the transaction based upon the value of the market factor or factors. The amount of the payment(s) will either be set at a fixed amount or fluctuate as the value of the underlying market factor fluctuates. The underlying market factors are items or variables which are subject to market fluctuations; for example, interest rates, currency exchange rates, assets, stock prices, stock index levels, commodities or a combination of one or more of these factors. Derivatives are normally used either as a hedging device or as an investment vehicle. Over the counter (OTC) derivative transactions involve numerous risks including, among others, market, counterparty default and illiquidity risk. In certain transactions, you could lose your entire investment or incur unlimited loss.

OTC options are issued by a counterparty, may not be traded in the secondary market and may not be standardized in their terms. Over-the-counter ("OTC") options transactions involve numerous risks including, among others, market, counterparty default and illiquidity risk. In certain transactions, you could lose your entire investment or incur unlimited loss. You should understand the counterparty and credit risk, liquidity, marketability, settlement styles and pricing of any OTC option before transacting and you should discuss with your professional tax, legal, accounting and other advisor(s) as you deem appropriate, how a transaction may affect you. In any discussion of a proposed transaction we would act at arm's length and not in any advisory or fiduciary capacity.