



# The Mathematics of Options Trading

By C.B. Reehl

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*The Mathematics of Options Trading* shows options traders how to improve their overall trading performance by first understanding and harnessing options mathematics. This detailed manual introduces the math needed to understand options and how they work and provides step-by-step instructions on how to use that math to analyze intended trades before committing capital. Traders learn how to use moving averages, curve fitting, extreme values, skewness, and other techniques to augment trading profits. The valuable accompanying CD-ROM contains programs for analyzing opportunities using several strategies, creating spreadsheets, and more.

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## Editorial Review

From the Back Cover

### **Market-tested guidelines to understand the math and determine the profit potential of each option trade**

Successful option trading requires that you understand and know how to use the mathematics underlying option prices. The Mathematics of Options Trading focuses on that math, providing you with the knowledge you need to both determine expected results of an option trade and calculate the optimum position size **before** committing capital.

Based on never-before-published work and research, this straightforward book includes:

- Clear-cut explanations of volatility and time to expiration--the two most important concepts for option traders
- Formulas and examples for calculating profit profiles of naked and covered options, combinations, spreads, synthetics, and more
- **The Reehl Option Trader CD**--with programs that immediately analyze profitable opportunities using numerous different strategies

The Mathematics of Option Trading explores dozens of formulas and techniques for analyzing option trades, as well as for understanding the odds of those trades, based on mathematical probabilities. It shows you how to work the numbers to take advantage of favorable opportunities as they present themselves, while at the same time making the necessary moves to reduce risk at every step.

Trading options is a meticulous and exacting undertaking that is fraught with risk. One way to achieve more consistent profitability is to gain a working knowledge of the mathematics and analyze the profit/loss profiles of each trade before putting your trading capital on the line.

The Mathematics of Options Trading focuses on the formulas and know-how you need to remove much of the guesswork from trading options. This in-depth trading manual provides you with the mathematical sophistication required for successful options trading, taking the mystery out of the math and making it both understandable and usable. Its comprehensive coverage includes:

- Formulas for developing profitable option strategies, including algebraic derivations, explanations and examples
- Basic combinations--covered calls and puts, protective puts, spreads, straddles, and strangles
- Strategy variations in which the number of options involved is important, including ratio spreads, backspreads, and butterfly spreads
- Calculation of mathematical expectation--the product of the value of an event and the probability of the event's occurrence
- Historical volatility--its calculation, use with the Black-Scholes option pricing model, sources for volatility information, and more
- The Greeks--Delta, Gamma, Vega, Theta, and Rho, with calculations and examples
- Other valuable concepts, including moving averages, first and second order equations, search algorithms, the put/call ratio, the central limit theorem, and more

Before you can be consistently successful as an option trader, you must first consider the possible outcomes together with their associated probabilities to always be aware of the odds of success. The Mathematics of Options Trading explains the mathematics required to achieve that goal, and how to dramatically improve the profit potential of trade selection.

The powerful accompanying CD includes:

- **Expectation.exe**--produces results for a single trade for any strategy covered in the book, both onscreen and on a printed report
- **DailyCheck.exe**--produces a printed report covering all example strategies for options on a given underlying instrument

About the Author

**C. B. Reehl** is an experienced options trader and former managing partner of a CPA and business consulting firm. Reehl has executive-level experience with Price Waterhouse & Co. (now PriceWaterhouseCoopers) and several other publicly traded and private companies. He has also written several articles on options trading for Futures magazine.

## Users Review

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**Eva Stanfield:**

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