Part 1
Going Long Volatility

Thursday February 20, 2020
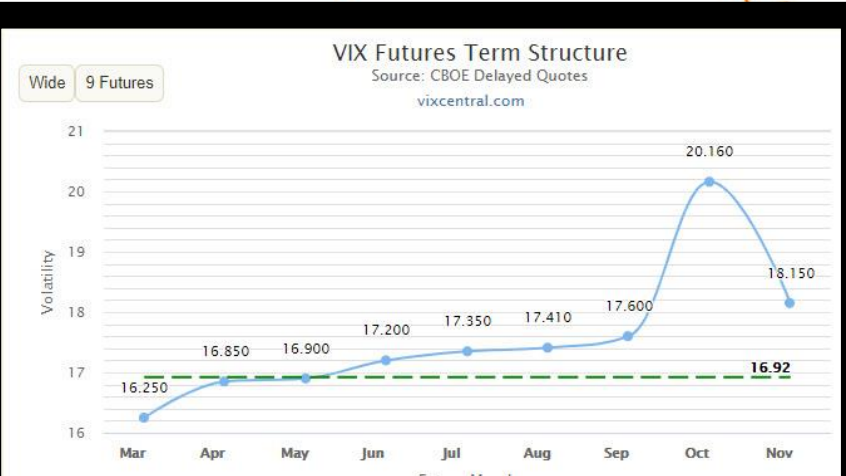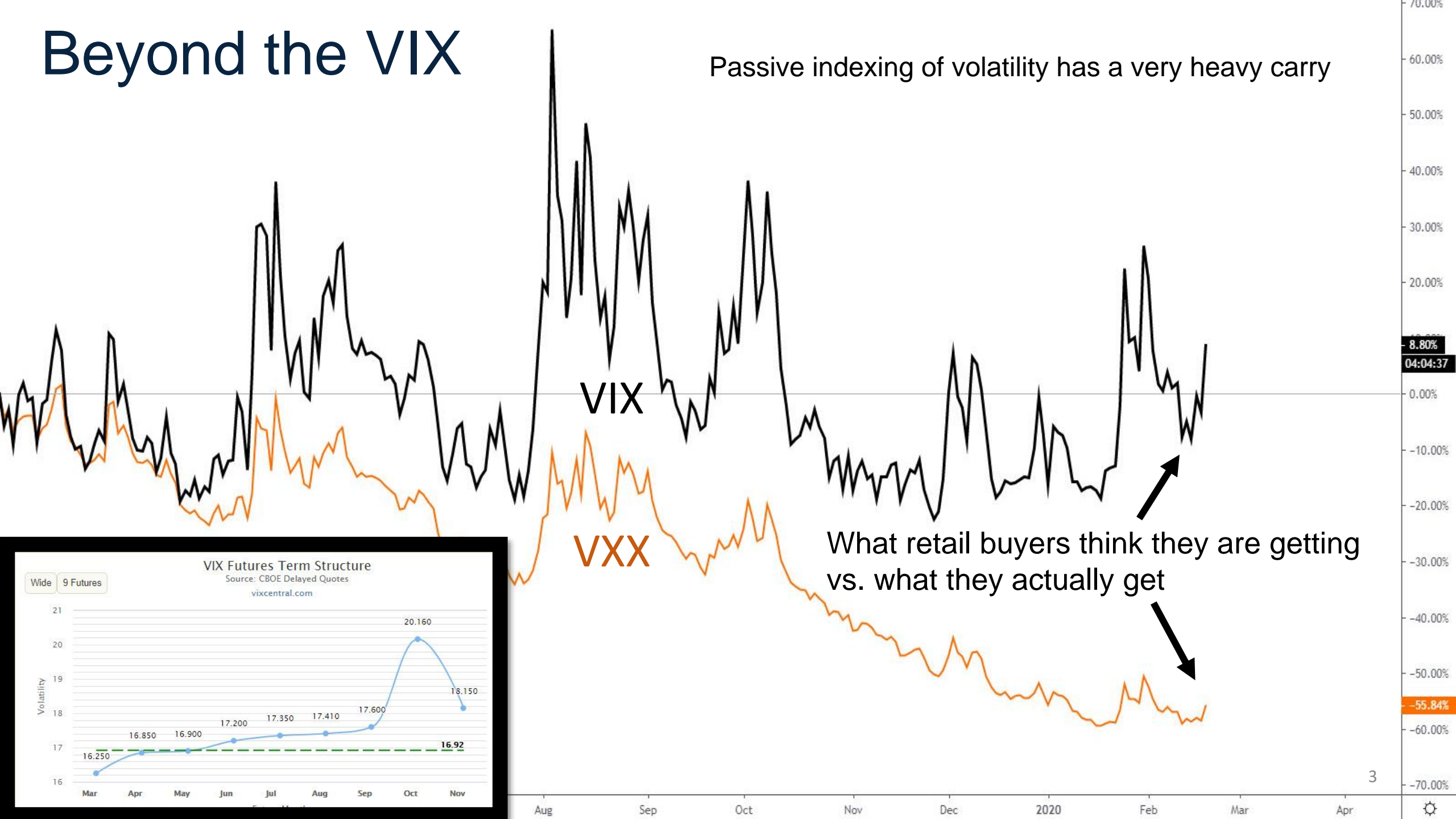
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Long Volatility vs. Long Tail Risk Positions

Traditional Long Volatility in Options Trading

Vega is the Greek that measures an option's sensitivity to implied volatility.

It is the change in the option's price for a one-point change in implied volatility.

Example - All other variables constant:
Option is $2.50
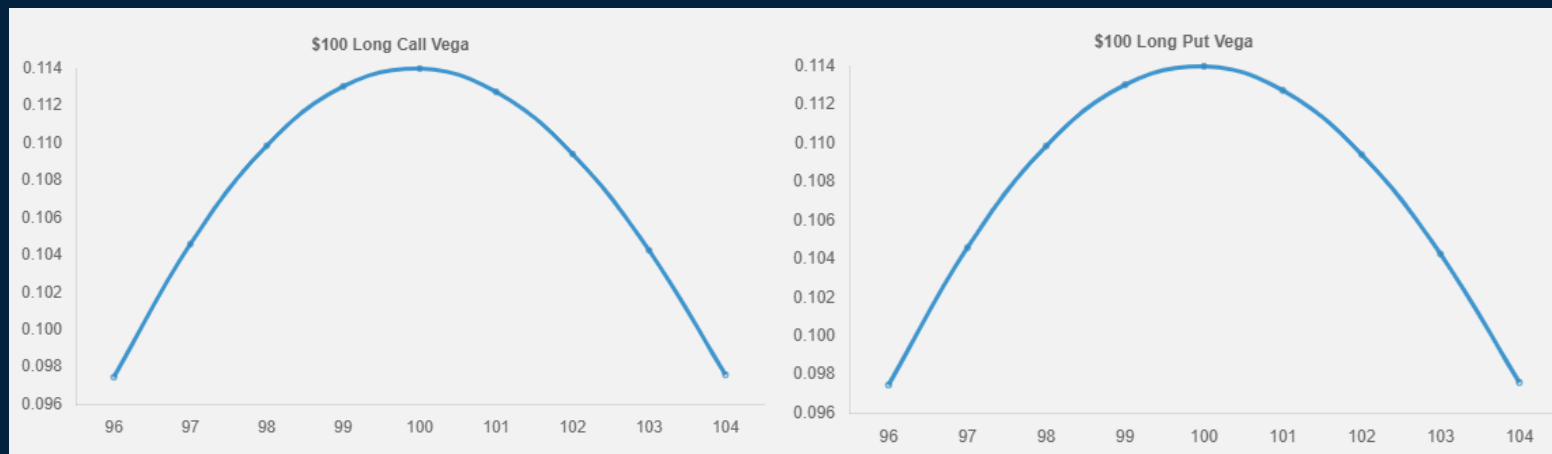Option has a Vega of 0.20
Implied volatility is at 10.00%

Assume implied volatility moves from 10.00% to 11.00% (+1.00%)
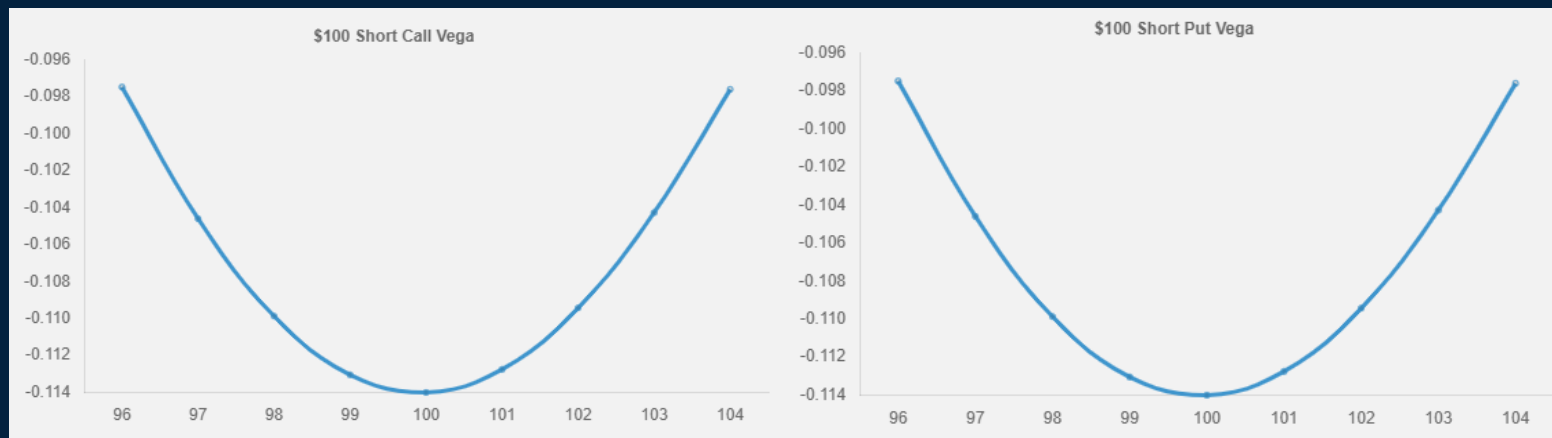The option price will increase by 1.00 x 0.20 = +$0.20 ($2.70)

Vega on Call and Put Options

Stock: $100.00
Strike: $100.00
Days: 30
IV: 25.00%

Long options = positive Vega

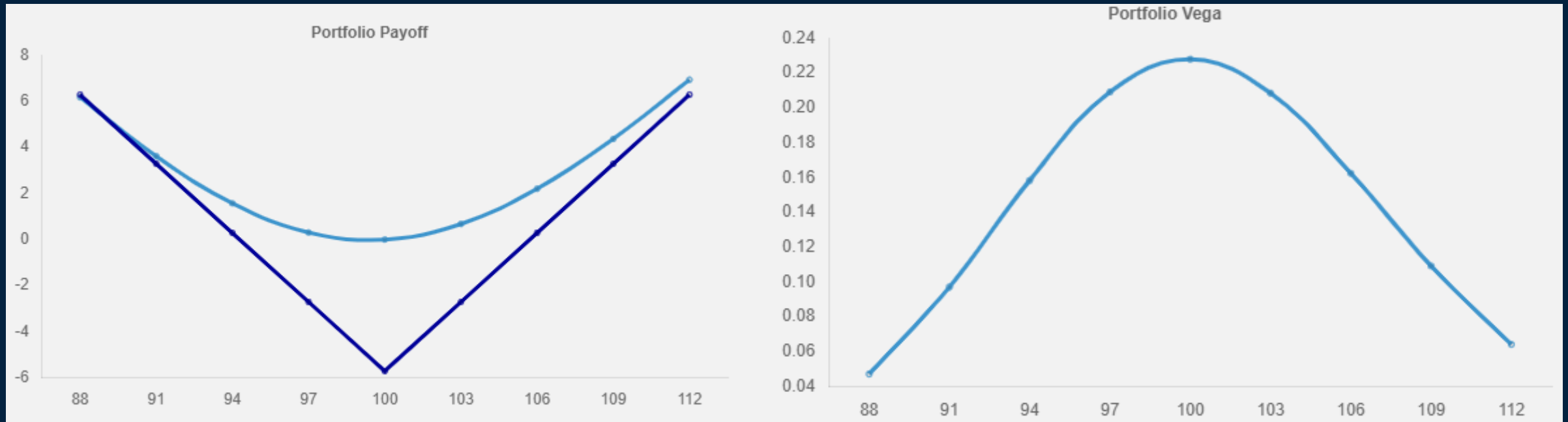Short options = negative Vega

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Using a traditional straddle to go long Vol

Stock: $100.00
Strike: $100.00
Days: 30
IV: 25.00%

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Stock: $100.00
Strike: $100.00
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	Call Option	Put Option	Net
Theoretical Price	$2.85	$2.85	$5.70
Vega	0.114	0.114	0.228

Stock: $100.00
Strike: $100.00
Days: 29 -1
IV: 30.00% +5.00%

	Call Option	Put Option	Net
Theoretical Price	$3.37	$3.37	$6.74 (+1.04)
Vega	0.112	0.112	0.224

Rolling Straddle

Portfolio Payoff

Breakeven

Breakeven

Max loss if held till expiration and security remains unchanged
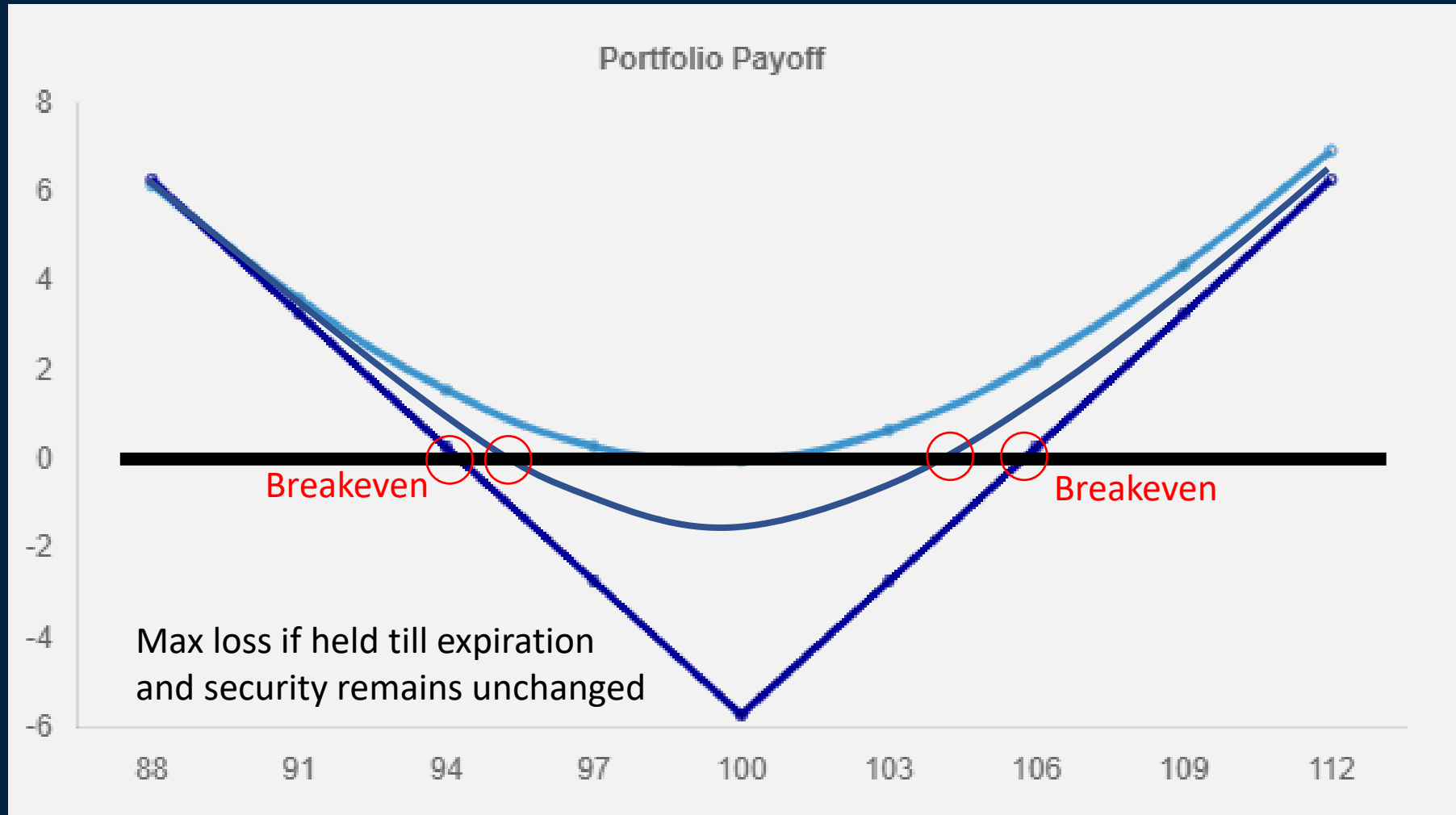
2 Week

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