

Education Series

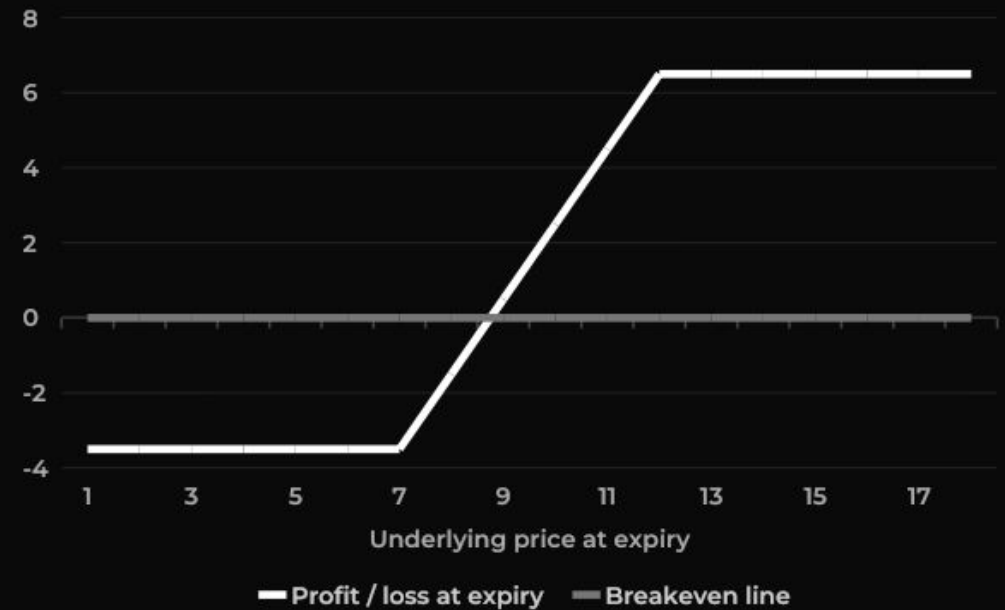
Options Trading: From Theory to Practice

Practical frameworks for expressing market views through a number of efficient options structures and disciplined risk management.

- **Author** Renato Leonard Capelj, Founder
- **Format** Four-part course, theory to execution
- **Web** physikinvest.com

A DEFINED-RISK PAYOFF

Call debit spread: loss capped, gain capped, cost reduced.



Executive Summary

■ Objective

To translate market views into efficient, defined-risk options positions: moving beyond simplistic directional bets toward structured trades that use time and volatility, not just direction.

■ Core edge: time and volatility over direction

Most traders focus on direction. The edge comes from reading the structure of volatility as the broader market responds to shifts in credit conditions and positioning regimes.

■ Outcome

A repeatable framework for expressing views through defined-risk structures that prioritize risk control and asymmetric reward-to-risk, turning ad hoc speculation into disciplined operating processes.

For educational and informational purposes only; not financial or investment advice. Options trading involves significant risk and is not suitable for every market participant.

The primer **at a glance**

PART 01

Market Foundations

Participants, price drivers, and derivatives basics

PART 02

Options Fundamentals

Pricing inputs, the Greeks, and time decay

PART 03

Market Structure

How flows, positioning, and gamma drive volatility

PART 04

Strategy & Execution

Practical structures, a case study, and risk rules

PART 01

MARKET FOUNDATIONS

Who trades, what moves prices, and why derivatives exist

Why Most Traders **Fail**

Losses usually come from process, not from a lack of market opinions. Four patterns repeat:

01

Emotion over process

Decisions driven by FOMO, fear, or revenge trading rather than logic.

02

Lack of planning

Entering without clear entry criteria, profit targets, or stop-loss levels.

03

Poor trade selection

Missing whether options are cheap or expensive within the broader volatility structure.

04

Overleverage and overtrading

Taking excessive size or frequency relative to account value and experience.

The cycle of failure

Impulse

→

Emotion

→

Losses

→

Revenge

→

Impulse again

The solution. Strategy, structure, and discipline outperform prediction. Focus on repeatable processes, not just direction.

Market Basics: **Purpose, Participants, Price Drivers**

01

Purpose

Match buyers and sellers efficiently, discover prices, and allocate capital to its most productive uses.

- Price discovery
- Liquidity
- Capital allocation

02

Participants

Market makers provide liquidity, institutions allocate capital, hedgers transfer risk, and speculators seek returns.

- Market makers
- Institutions
- Hedgers
- Speculators

03

Price drivers

Prices move on supply and demand imbalances, shifts in liquidity, and the continuous arrival of new information.

- Supply and demand
- Liquidity shifts
- Catalysts and news

In one line. A market is an information-processing machine: flows and news go in, prices come out.

Understanding **Market Types**

Many asset classes, each with its own purpose and risk. Derivatives sit on top of all the others.

01

Stocks

Equity ownership in a business.

Equity

Dividends

Voting rights

02

Bonds

Debt securities representing a loan to an issuer.

Fixed income

Yield

Duration risk

03

Currencies

Markets for exchanging national currencies.

FX pairs

Macro flows

Liquidity

04

Commodities

Tradable raw materials and physical goods.

Energy

Metals

Agriculture

05

Derivatives

Contracts whose value is linked to an underlying asset.

Risk transfer

Leverage

Precision

Derivatives: Why the Market Matters

Derivatives are the deepest pool of liquidity in global finance.

\$3-4Q/year

Annual Traded Volume (Turnover)

Short-term rate futures (SOFR), equity indexes (SPX, NDX), commodity futures

\$110-140T

Listed Open Interest (Notional)

On primary global venues including CME, Cboe, ICE, and Eurex

3

Core use cases

Hedging, speculation, and structuring

Why it matters

- **Unmatched liquidity.** Deep global markets enable efficient price discovery.
- **Price efficiency.** Views can be expressed quickly and precisely, tightening spreads and speeding information into prices.
- **Scale.** Large exposures can be hedged or transferred without trading the underlying markets directly.

Core use cases

- **Hedging.** Transfer unwanted currency, rate, or price risk to counterparties willing to hold it.
- **Speculation.** Take directional or volatility-based positions with defined risk and capital efficiency.
- **Structuring.** Design custom payoffs to generate income, protect downside, or express complex views.

"Notional" is the reference value of contracts outstanding, not money at risk. The headline figure shows the scale of liquidity, not the scale of exposure.

Types of Derivatives

Four contract families. Options are the only one that gives a right without an obligation for the buyer.

	01 Futures Exchange-traded	02 Options Exchange-traded	03 Forwards Over-the-counter	04 Swaps Over-the-counter
What it is	An obligation to buy or sell the asset at a future date.	The right, but not the obligation, to transact at a set price.	A private agreement to buy or sell at a future date.	An agreement to exchange cash flows over time.
How it trades	Standardized contracts on centralised exchanges.	Standardized contracts; buyer pays a premium, seller collects it (the insurer).	Traded between private parties with fully customised dates and amounts.	Common types: interest rate, currency, and credit default.
Defining feature	Margin posting; heavily regulated and liquid	Convexity: an asymmetric risk and reward profile	Flexibility of terms	Institutional tool for rate, FX, and credit exposure
Watch out for	Losses can exceed the initial margin.	Premium decays with time if the move does not come.	Counterparty (default) risk.	Counterparty risk and complex documentation.

Why Derivatives Matter: **The Power of Leverage**

Derivatives act as a force multiplier: small inputs control large contract values.

01

Capital efficiency

Achieve the same market exposure with far less upfront capital.

02

Targeted exposure

Isolate to single variables: direction, time decay, or volatility.

03

Portfolio hedging

Define downside risks without selling core long-term holdings.

04

Precision execution

Express nuanced views at exact price levels within set time windows.

Result. Trading moves beyond up-or-down bets: views can be expressed across direction, time, and volatility at once.

PART 02

OPTIONS FUNDAMENTALS

From insurance logic to pricing inputs and risk drivers

The Insurance Analogy

Options transfer risk the same way insurance does. A put option is a policy on a stock.

■ Pricing risk

Like insurers, option sellers collect premiums in exchange for taking on risk and pricing potential payouts.

■ Rights vs. obligations

Buyers pay a premium for protection. Sellers collect it and take on the obligation if the event occurs.

■ Market roles

Buyers seek protection or asymmetric upside. Sellers collect premiums by taking the other side of risk.

	Options Equivalent	Practical Example
Insured Asset	Underlying Stock / Asset	100 shares of XYZ stock trading at \$100
Insured Period	Time to Expiration	30 days to expiration
Coverage Floor	Strike Price	\$90 Strike Put
Deductible	Out-of-the-Money Buffer	\$10 (\$100 stock price – \$90 strike price)
Premium	Option Premium	\$3 (\$300 total per contract)
Loss Ratio	Realized Losses ÷ Collected Premium	Strike Price – Stock Price (if below \$90)*
Claims Payout	Value at Expiration	Strike Price – Stock Price
Reinsurance	Downside Spread / Tail Risk Hedge	Buying a lower strike put (e.g., \$80 Put) to cap loss

**Just like home insurance doesn't bill you if your house doesn't catch fire, options don't have a negative payout if the stock stays safe. If the stock ends above \$90, the payout is simply \$0.*

Options Defined: **Calls vs. Puts**

CALL OPTION

The right to BUY an underlying asset at a specified price within a specific time period.

Common applications

Bullish speculation

Hedge against rising prices

PUT OPTION

The right to SELL an underlying asset at a specified price within a specific time period.

Common applications

Bearish speculation

Hedge against falling prices

Four key terms every contract has

Strike price

The set price at which the asset can be bought (call) or sold (put).

Expiration

The date after which the contract expires and can no longer be exercised.

Premium

The price the buyer pays the seller to acquire the option right.

Moneyness

In the money (ITM): has intrinsic value. Out of the money (OTM): has none.

Pricing Options: The Math Behind Premiums

1. The insurance logic (expected value)

$$\begin{array}{ccc} \begin{array}{c} \text{\textbf{\$100,000}} \\ \text{Potential loss} \end{array} & \times & \begin{array}{c} \text{\textbf{1\%}} \\ \text{Probability} \end{array} \\ & & = \end{array} \begin{array}{c} \text{\textbf{\$1,000}} \\ \text{Fair value} \end{array}$$

A 1% chance of a \$100,000 loss has an expected cost of \$1,000. Insurers charge more than this to cover expenses, risk, and profit.

2. What an option premium is made of

$$\begin{array}{ccc} \begin{array}{c} \text{\textbf{Intrinsic}} \\ \text{Value if exercised now} \end{array} & + & \begin{array}{c} \text{\textbf{Extrinsic}} \\ \text{Time and volatility} \end{array} \\ & & = \end{array} \begin{array}{c} \text{\textbf{Premium}} \\ \text{Option price} \end{array}$$

Extrinsic value is the market's consensus price for uncertainty: probability, volatility, and time until expiry.

3. Where the trader's edge comes from

$$\begin{array}{ccc} \begin{array}{c} \text{\textbf{Market price}} \\ \text{What the market charges} \end{array} & - & \begin{array}{c} \text{\textbf{Fair value}} \\ \text{Your estimate of real risk} \end{array} \\ & & = \end{array} \begin{array}{c} \text{\textbf{Edge}} \\ \text{Profit zone} \end{array}$$

Sell when price is above your calculated fair value (overpriced fear). Buy when price is below it.

The Five **Pricing Inputs**

Every option price is a function of five variables. Two of them are where traders find an edge.

01

Spot price

Where the underlying asset trades right now.

OBSERVABLE

02

Strike price

The pre-agreed price beyond which the option pays out.

OBSERVABLE

03

Interest rates

The risk-free rate, affecting the cost of carry and discounting.

OBSERVABLE

04

Time to expiry

More time means more possibilities for the price to move.

DYNAMIC: THE EDGE

05

Implied volatility

The market's expectation of future price fluctuation.

DYNAMIC: THE EDGE

Strategic insight. Spot, strike, and rates are largely fixed or observable. Time and volatility are the dynamic inputs where edges can possibly be found and exploited.

The Greeks: Your Risk Dashboard

Each Greek measures how the option price responds to one market variable. Example readings are shown in each card.



0.54

EXAMPLE

DELTA

Directional exposure

How much an option price moves for a \$1 shift in the underlying stock. It also serves as an estimate of expiring in-the-money. A 0.54 Delta means a \$1 stock rise adds \$0.54 to option value, reflecting a ~54% chance of expiring beyond the strike.



0.08

EXAMPLE

GAMMA

Acceleration risk

Tracks the rate of change in Delta to show how fast your directional exposure accelerates as price moves. A 0.08 Gamma means a \$1 stock rise increases Delta from 0.54 to 0.62, causing your gains to build faster on further moves.



-0.12

EXAMPLE

THETA

Daily time decay

Calculates the daily value lost as expiration approaches, assuming all other market variables stay constant. A -0.12 Theta means holding this option costs \$0.12 per share (\$12 per contract) each day if the stock price remains unchanged.



0.21

EXAMPLE

VEGA

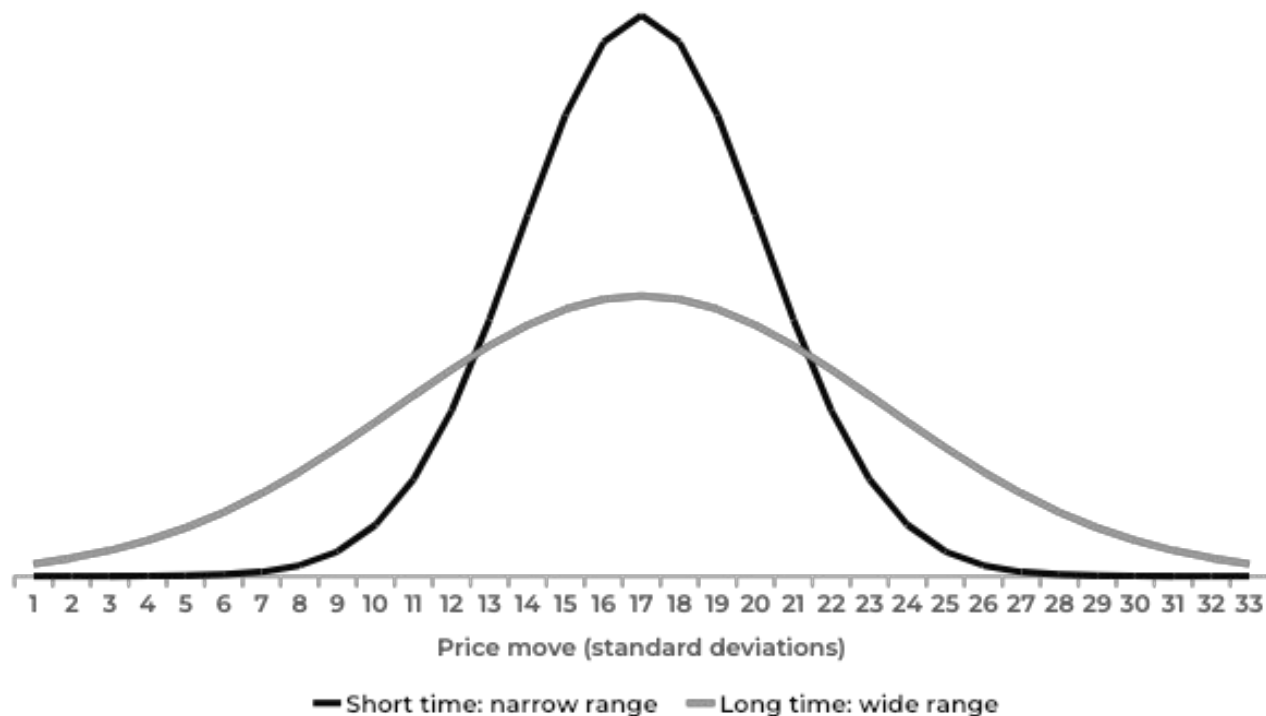
Volatility sensitivity

Measures price sensitivity to a one-point shift in implied volatility driven by changes in market fear and demand. A 0.21 Vega means a 1% rise in implied volatility (e.g., 20% to 21%) adds \$0.21 per share (\$21 per contract) to the option value.

Time & Volatility: Your Edge

Time and implied volatility shape the range of possible outcomes, and therefore the price.

Probability distribution of price over time (illustrative)



■ More time, more possibility

The more time left until expiration, the wider the range of prices the stock can reach. Because there is a higher chance for a bigger move, longer-dated options (usually) cost more money.

■ Volatility is mean-reverting

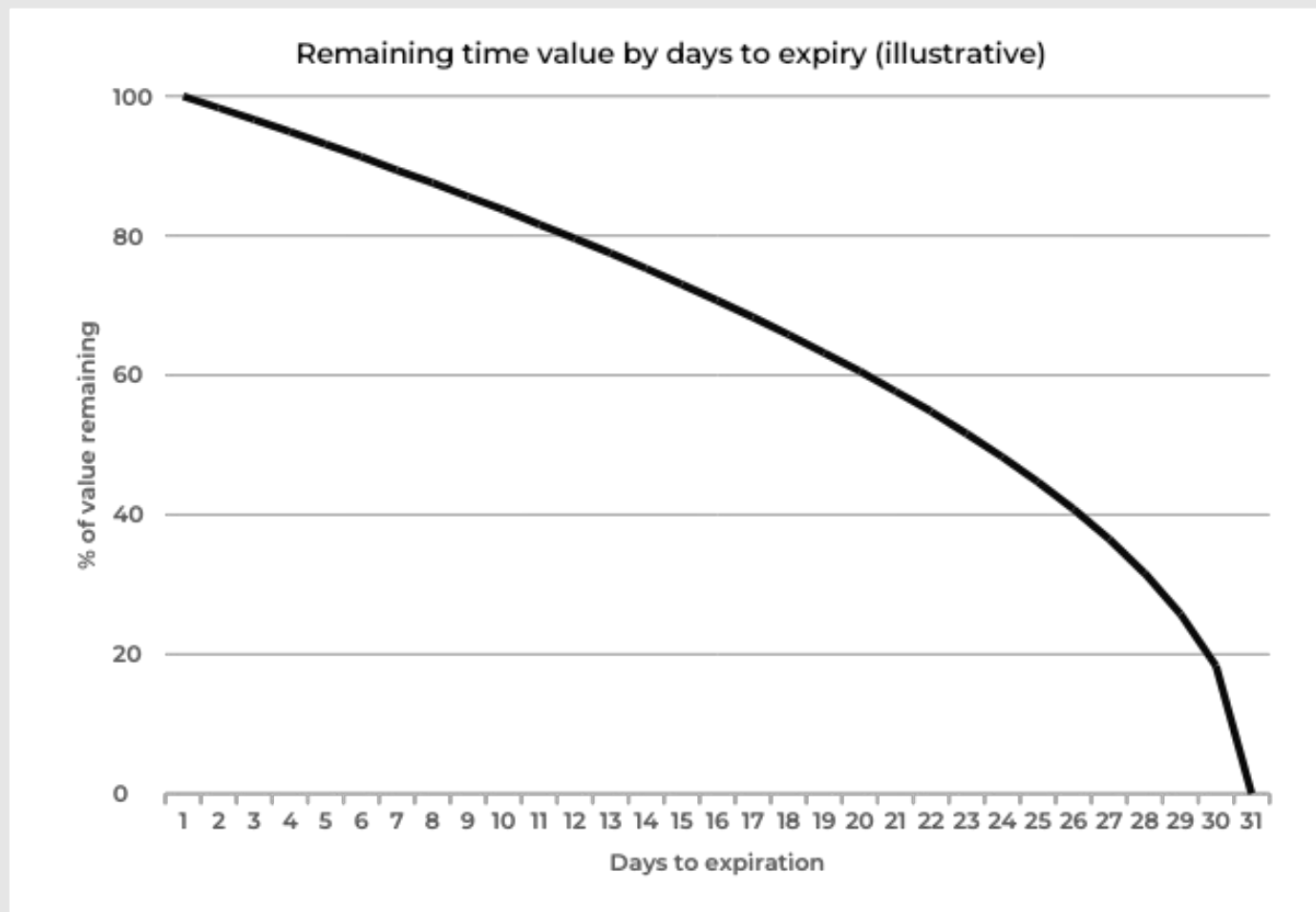
Implied volatility (market anticipation/pricing) tends to spike during big events, and eventually settle back lower to a long-term average. When option prices get unusually expensive or cheap, they usually pull back toward normal levels.

■ The fat-tail reality

Standard math models assume stocks follow smooth, predictable bell curves. In real life, extreme crashes and massive rallies happen much more frequently than textbook formulas predict.

Time Decay: **The Theta Curve**

Time value does not erode in a straight line. It accelerates as expiration approaches.



■ **Slow, then fast**

Decay is gentle 90+ days out and accelerates sharply in the final 30 days. The steepest loss comes in the last week.

■ **Long options pay theta**

You lose value daily. Avoid holding into the final 30 days unless there is a specific catalyst.

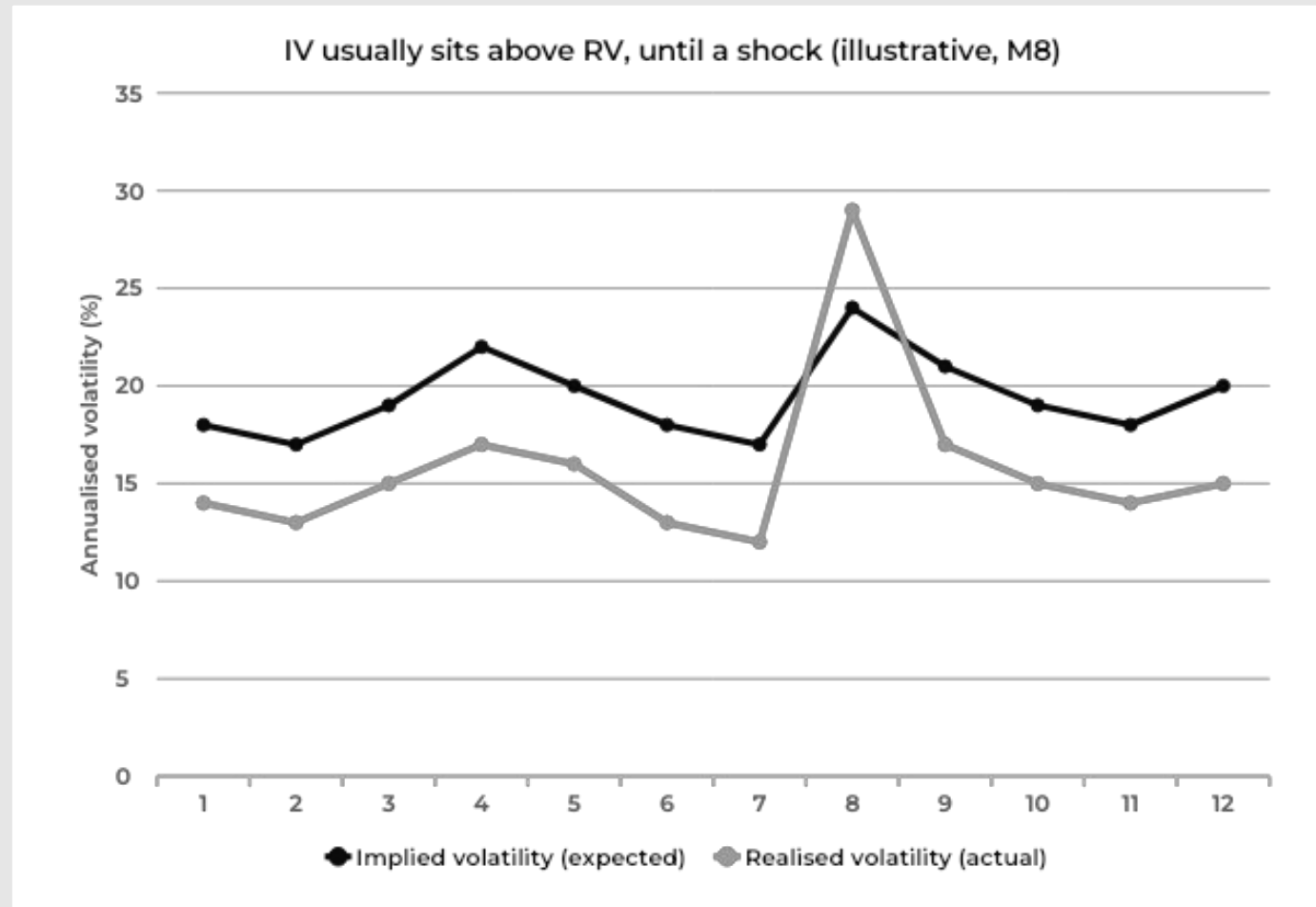
■ **Short options collect theta**

You earn value daily. Target the acceleration phase, roughly 45 to 21 days out.

Theta is often the silent killer of directional trades.

Implied vs. Realised Volatility

Implied volatility (IV) is the market's price for expected movement. Realised volatility (RV) is what actually happens.



+4.5% Example

Illustrative historical variance risk premium (IV minus RV typically averages 2–5%)

■ The opportunity

Demand for downside protection keeps implied volatility overpriced relative to actual movement. Option sellers may be able to profit by selling premium when this volatility gap stretches.

■ The risk

In market crashes, stock movement can blow past the expected volatility. Buying cheap and very far-out-of-the-money options acts as “reinsurance” to cap losses when market shocks hit.

KEY TAKEAWAY

EDGE > DIRECTION

Short-term price direction is mostly noise. A real edge can come from structuring trades to play on time and volatility.

01

Structure drives outcome

02

Let time work for you

03

Define risk first

PART 03

MARKET STRUCTURE & MODERN DYNAMICS

Why flows and positioning can move markets more than headlines

The Changing Market Landscape

Markets have shifted from absorbing shocks to amplifying them.

ERA 01

Pre-2008 crisis

Dealer cushioning

Banks held large inventories and absorbed selling pressure.

→

ERA 02

Post-regulation

Constrained balance sheets

Limits upended proprietary trading, so counterparties now hedge more often and absorb less.

→

ERA 03

Today

Reflexive feedback loops

Passive flows plus options volumes force counterparties to amplify moves rather than dampen them.

What drove the shift

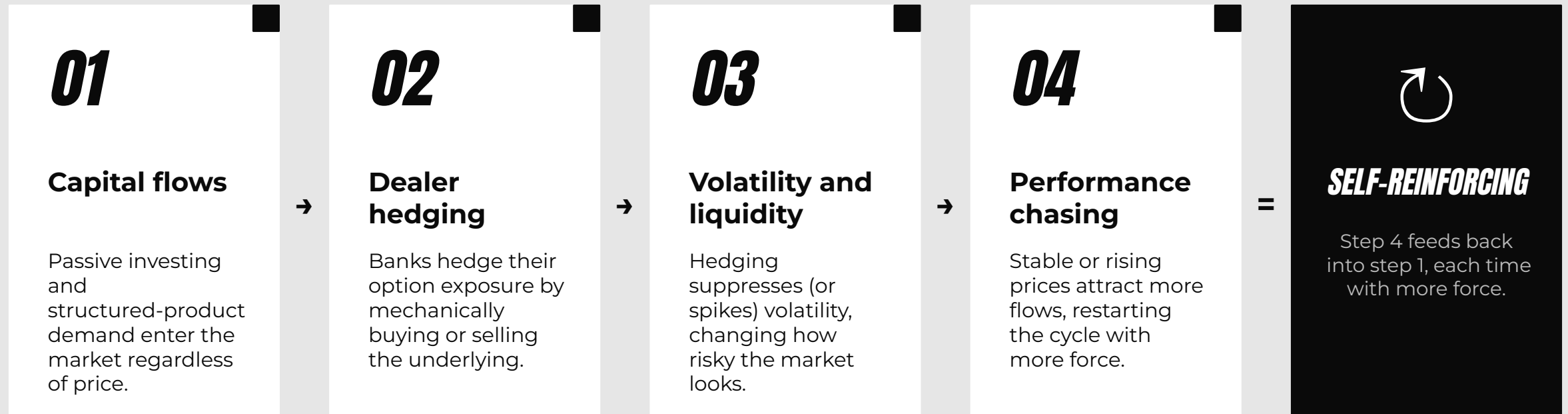
■ **Structured products and passive investing.** Explosive growth in automated flows and derivative-based yield products.

■ **Regulatory impact.** Post-crisis rules constrain dealer balance sheets and their ability to absorb shocks.

■ **The result.** More hedging activity, tighter feedback loops, and sharper price dislocations.

The Market **Incentive Loop**

How capital flows create reflexive loops that amplify trends and volatility.



Why it matters. These flows are mechanical, not opinion-driven. Knowing where they are in the cycle tells you what the market is likely to do next.

Understanding Reflexivity

Prices change positioning, and positioning in turn drives prices further.

■ The core concept

Efficient market theory says price reflects value. Reflexivity says the price move itself changes behavior, which pushes price further in the same direction.

■ Mechanical forces

Dealers, risk-parity funds, and algorithms follow strict rules. When price moves, their models trigger mandatory buying or selling. In this way, price moves change behavior.

Real-world examples

Gamma hedging: forced dealer buying/selling to adjust delta

Stop-outs: automated liquidations trigger at *high interest* levels

Vol control: mechanical equity selling as volatility scales up

01

Price move

Price breaks a key level or drifts significantly: the initial trigger.

02

Model trigger

Risk models (VaR), delta limits, or technical stops signal a breach.



03

Forced flow

Participants must buy or sell to re-hedge or exit: mechanical flow.



04

Self-reinforcing

The forced flow moves price further, triggering the next round.



Dealer Gamma: **Long vs. Short Regimes**

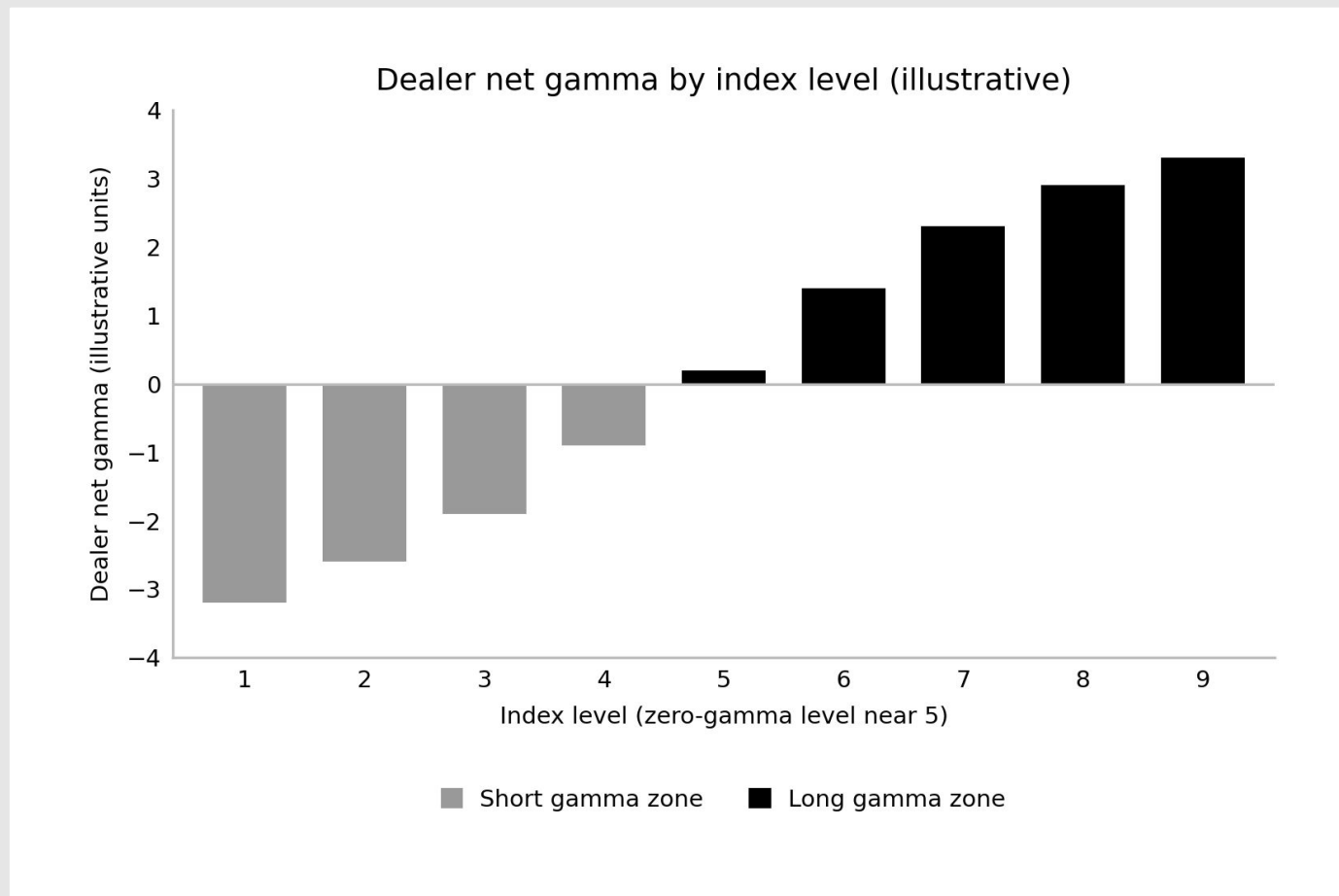
Dealers take the other side of customer trades. The direction of their mandatory hedging sets the market's character.

	+ Long gamma The stabilizer	– Short gamma The accelerator
Dealer behavior	Sell into strength, buy into weakness.	Buy as prices rise, sell as prices fall (chasing).
Effect on volatility	Dampened: ranges tighten	Amplified: “air pockets” and gaps form
Market character	High open-interest strikes act as magnets in calm markets, pinning price and defining technical levels.	Momentum and swings; technical support and resistance levels break easily.
What tends to work	Counter-trend trades.	Trend-following trades.
Analogy	Driving with shock absorbers: bumps are smoothed out.	Driving on ice: small slips turn into big slides.

Knowing the current gamma regime helps anticipate whether markets will mean-revert or trend.

Price Action and **the Gamma Flip**

Below the zero-gamma level, dealers switch from stabilizers to accelerators.



■ The hedging mechanism

Long gamma: dealers buy dips and sell rips, stabilizing the market. Short gamma: they sell dips and buy rips, amplifying moves.

■ What the flip does

Liquidity vanishes into air pockets and volatility can spike almost instantly as dealers sell into weakness.

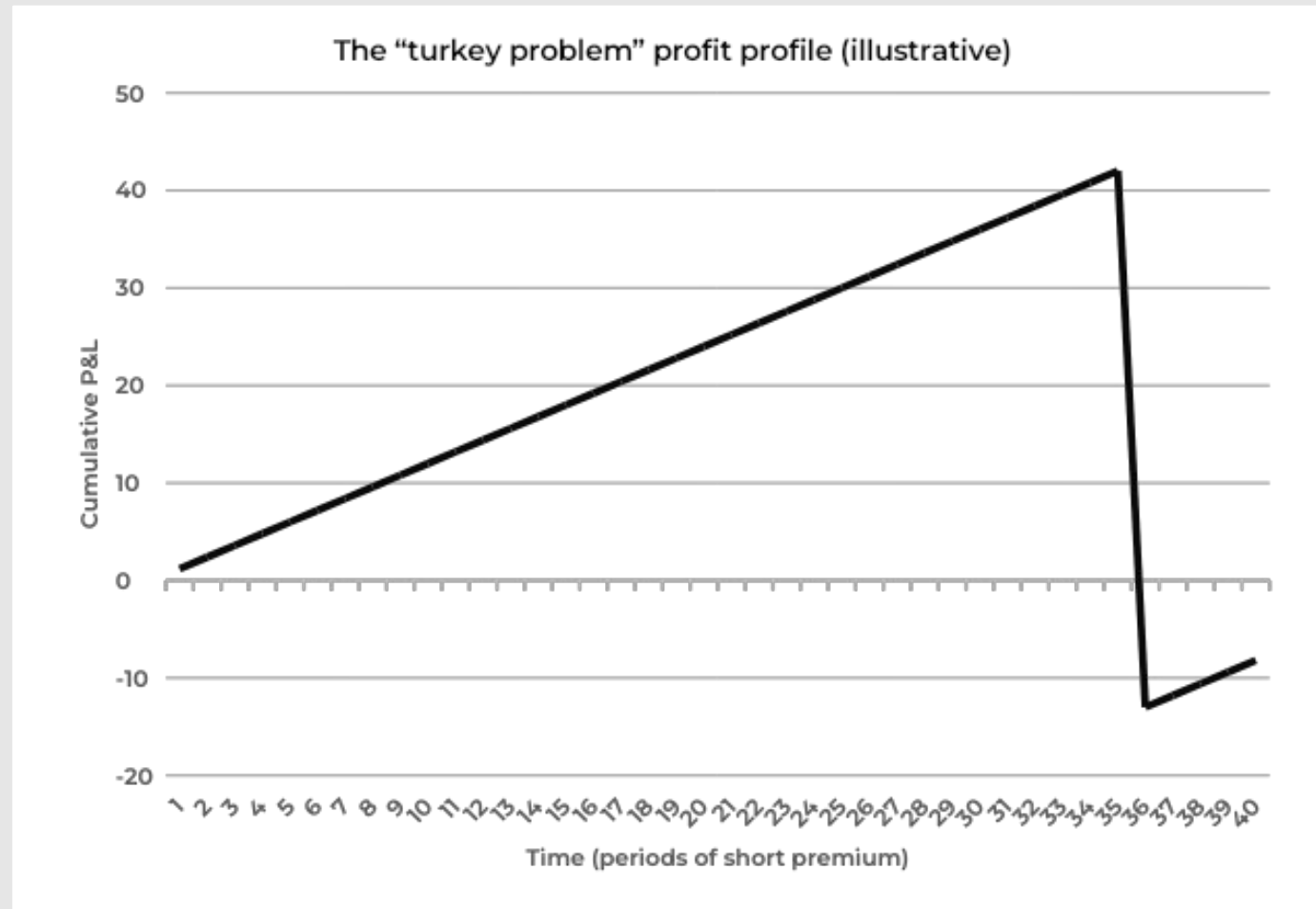
EXECUTION EDGE

Avoid shorting volatility when dealers are in negative gamma. The grind up is over: assume the range will expand.

Dealers are typically short gamma downside (accelerating sell-offs), but explosive call buying flips them short gamma upside, forcing buying into rallies.

Why Small Traders Should **Avoid Carry Trades**

Selling options for steady income works consistently, until it suddenly doesn't.



■ The income trap

Like picking up pennies in front of a steamroller: small steady gains, then one large loss.

■ Asymmetric risk

Limited upside with unlimited or massive downside. One event can erase years of gains.

■ Account blowups

Tail events and gaps overwhelm small balance sheets that cannot absorb extreme moves.

■ The solution

Prefer defined-risk structures (vertical spreads) over naked short volatility. Reduce your maximum loss.

Without a large balance sheet, carry is not an income strategy. It is delayed destruction.

The New **Market Reality**

ESCALATOR UP, ELEVATOR DOWN

No longer just market psychology: a structural feature of reflexive market mechanics.

01

The grind up

Long stretches of low-volatility gains, driven by passive inflows and dealer long-gamma hedging.

02

Violent de-risking

Sudden shifts into short gamma make liquidity vanish, producing rapid, deep corrections.

03

Adaptation

Use convex structures to take part in the grind while holding protection for the inevitable flush.

Insight. Don't fear the crashes; anticipate the cycles. Structure trades to survive the "elevator" moments.

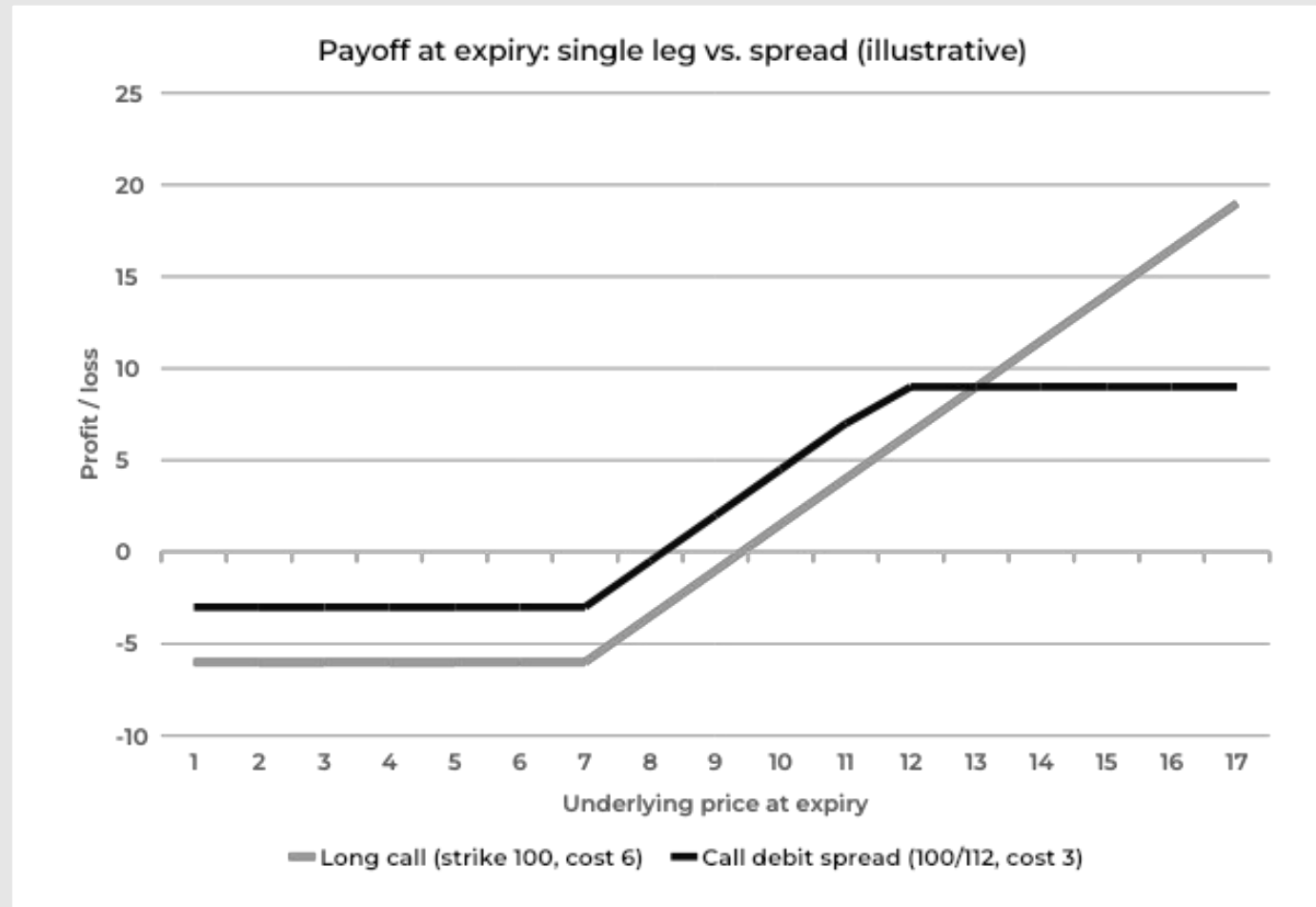
PART 04

STRATEGY & EXECUTION

From concepts to a repeatable playbook, with a live case study

The Case for **Multi-Leg Strategies**

Don't just bet on direction. Structure the trade to profit from how the price moves.



■ Shape payoff, define risk

Turn open-ended exposures into precise zones.
Know exactly what you can lose before you enter.

■ Exploit skew and volatility

Sell expensive options to finance cheaper ones,
neutralizing time decay or turning it in your favour.

■ Asymmetric reward-to-risk

Build profiles where potential profit outweighs the
defined risk, often with a higher probability of
success.

Three Core Structures

Choose the structure by probability, risk appetite, and market view.

	01 Credit vertical spreads Higher probability directional play	02 Debit vertical spreads Lower probability directional play	03 Ratio spreads Advanced / asymmetric
Mechanism	Sell an expensive option, buy a cheaper one for protection.	Buy an ITM or ATM option, and sell an OTM option to reduce cost.	Buy one option, sell two further OTM. Buy far-OTM options as "reinsurance" to cap risk (creating a butterfly).
Benefit	Time decay (theta) works in your favour daily.	Cheaper than a naked call or put, with capped risk.	Lower cost with a higher-leverage payout zone around the short strike; "reinsurance" caps tail risk.
Trade-off	Limited profit potential with defined risk.	Direction must be right; time works slowly against you.	Undefined risk if price moves far past the short strikes.
Ideal for	Higher-volatility environments; neutral-to-directional views where you act as the house.	Low-volatility environments; strong directional conviction with capped upfront outlay.	Low-to-moderate volatility; targeting exact technical levels with asymmetric payoff.

Call Strategy Matrix

Choosing the right upside structure for your view and risk tolerance.

	01 Call credit spread Neutral / bearish	02 Call debit spread Moderately bullish	03 Call ratio spread Bullish / neutral
Structure	Sell a call (ATM/OTM), buy a farther-strike call.	Buy an ATM/ITM call, sell an OTM call to reduce cost.	Buy 1 call, sell 2+ calls further out.
Benefit	Profits from time decay and volatility crush; get paid to take risk at levels you like (resistance).	Lowers the cost basis of a directional bet; defined risk.	Benefits from skew (higher OTM demand); wide profit zone.
Risk	Defined: strike width minus credit received	Limited to the premium paid at entry	Undefined upside risk; may need active management of wings
Ideal for	Fading a rally into resistance, or income in flat or falling markets.	A directional breakout with a specific price target.	Targeting a pinning at a set level, or financing exposure through skew.

Put Strategy Matrix

Choosing the right downside structure for your view and risk tolerance.

	01 Put credit spread Neutral to bullish	02 Put debit spread Bearish / protection	03 Put ratio spread Bearish / neutral
Structure	Sell a put (ATM/OTM), buy a farther-strike put.	Buy an ATM/ITM put, sell an OTM put to reduce cost.	Buy 1 put, sell 2+ puts further out.
Benefit	Profits from time decay and volatility crush; get paid to take risk at levels you like (support).	A defined-risk hedge or bet; cheaper than a naked put.	Benefits from skew (higher OTM demand); wide profit zone.
Risk	Defined: strike width minus credit received	Limited to the premium paid at entry	Undefined downside risk; may need active management of wings
Ideal for	Income in flat or rising markets; monetizing high IV at support.	Hedging portfolio downside, or a bearish view on limited capital.	Targeting a downside level; willing to own the asset lower.

Entry Checklist Framework

Only execute when all six boxes are checked. Discipline is your primary edge.

☐ **01**

Setup

Identify the catalyst

Technical breakout, fundamental event, or volatility reversion? Define the grounds for entry.

☐ **02**

Target

Define price levels

Where is the asset likely to go? Assess the odds of reaching your strikes using support and resistance.

☐ **03**

Timeframe

Align expiry to thesis

How long will the move take? Match option duration to the expected move.

☐ **04**

Risk

Sizing and stops

Risk 1–2% of capital per trade. Pre-define your maximum-loss exit before entering.

☐ **05**

Strategy

Select the structure

Credit spread for income, debit spread for direction, ratio for play on volatility or capturing skew.

☐ **06**

Profit-taking

Set exit targets

Credit: capture 50–75% of premium.
Debit: target 200–300% return on risk.

Case Study: Tesla's S&P 500 Inclusion

November 2020: a predictable, one-sided flow created by structurally forced buying.

17 NOV 2020

The catalyst

Tesla (TSLA) shares surged on news that S&P Dow Jones Indices would add the stock to the S&P 500.

The market thesis

- **Index funds** must buy shares to match the index weight.
- **Dealers** anticipate the demand and build long inventory to supply liquidity later.
- **Feedback loop** speculators buy calls, dealers hedge by buying stock, price rises, more buying follows.

21 DEC 2020

Effective inclusion date

Passive funds tracking the index are structurally forced to buy by this date.

The strategic goal: defined risk, positive carry

- **Objective:** express a bullish view without buying expensive stock outright at the highs.
- **Method:** use multi-leg options structures to finance the trade and lower the cost basis.
- **Edge:** persistent and heavy demand for OTM puts made it possible to sell rich downside premium to fund upside.

Tesla: Setup, Execution, and Result

Example trade taken mid-November 2020: aggressive but structured entries around a high-conviction event.

~\$61

Initial risk Total ticket cost (net debit)

~\$827

Closing credit Structure closed the following day

~1,256%

Return on risk In roughly 24 hours

1 Setup

Technical: breakout from consolidation with strong momentum on the inclusion news.

Options chain: high open interest at \$500; steep skew favoured selling far OTM puts.

Plan: call spreads in the \$500–550 zone funded with put spreads.

2 Structure

Call ratio spreads: between 500/530 and 490/505 to capture the upside move.

Short puts: sold the 445 and 460 puts, where higher IV paid rich premiums.

Net effect: put credit paid for nearly all of the bullish call spreads.

3 Why it worked

Direction: the move came as the thesis predicted.

Volatility: expansion lifted the long legs.

Financing: Selling puts funds the trade to cut costs. If the stock stays flat, you break even instead of losing money.

Historical example of one specific sequence, shown for education only. Such returns are not typical and involve significant risk. Please see the link that follows here for more complex trading sequences and real trade tickets: physikinvest.com/category/results

Position Sizing & **Risk Principles**

01

Risk per trade

Standard allocation: 1–2%

Never risk more than 2% of total capital on a single outcome. Size down when a trade correlates with existing positions.

02

Defined risk

Avoid naked short volatility

Prefer spreads over undefined risk. Tail events happen more often than normal-distribution models predict.

03

Ratio spread sizing

Conservative size, protected wings

Size ratio spreads smaller because margin can expand. Buy far-OTM wings in anticipation of periods of market stress.

04

Portfolio composition

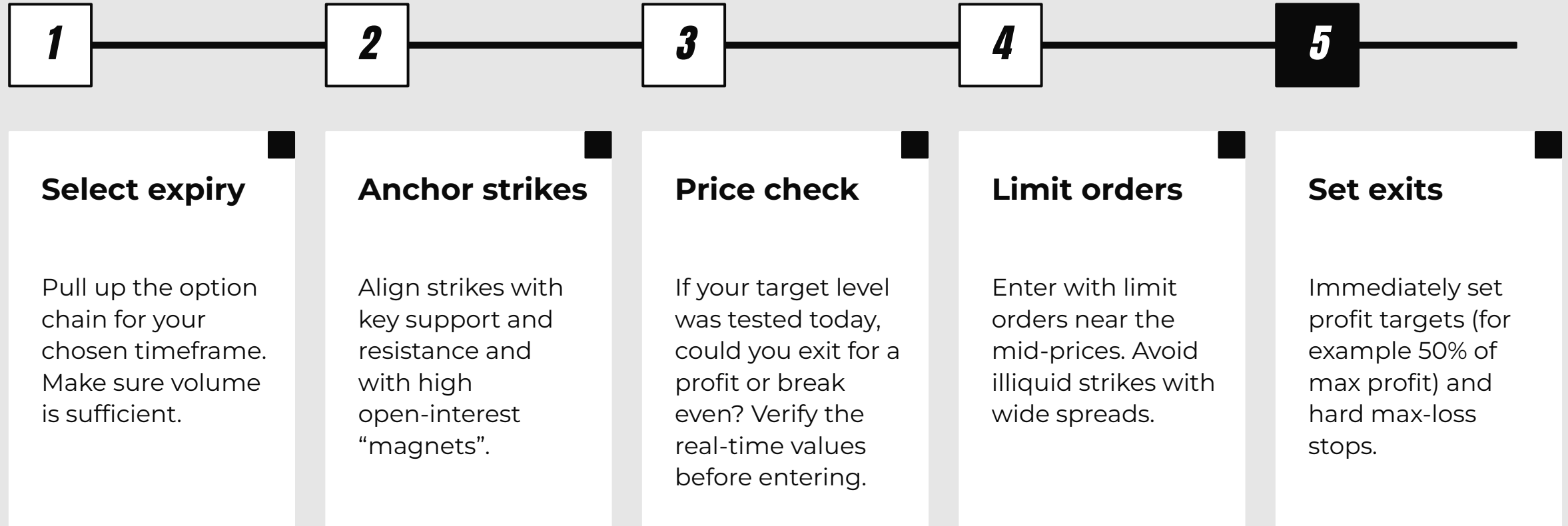
Cap total exposure

Limit total short-volatility exposures across your book. Spread expirations to avoid concentration in one timeframe.

Risk management is the only variable you fully control. Prioritize survival over a thirst for yield.

Order Entry Walkthrough

A systematic five-step process for executing multi-leg option structures efficiently.



Reading the Option Chain

What to look for on your platform before you place a trade.

OPTION CHAIN › TSLA › NOV 20 EXPIRY			
CALLS vol / OI		STRIKE	PUTS vol / OI
1.2k / 5.5k		540	850 / 2.1k
3.5k / 12k		520	1.1k / 4.5k
ATM high open interest		500	Liquidity magnet
2.1k / 8.5k		480	4.2k / 15k
950 / 3.2k		460	2.8k / 9.5k
DELTA	THETA	GAMMA	VEGA
0.52	-0.18	0.04	0.22

Illustrative chain

Find liquidity magnets

Scan for strikes with unusually high volume and open interest. They often act as targets or support and resistance.

Read the skew

Compare OTM put and call prices. Steep skew (puts over calls) signals fear and hedging demand.

Use delta as a rough guide

Delta loosely approximates the chance of finishing in the money. Use it to frame scenarios, not as a precise probability.

Protect execution quality

Wide bid-ask spreads cause slippage. Use limit orders near the mid and avoid illiquid strikes.

Pro tip. High volume with rising OI confirms commitment; high volume with falling OI just means short-term traders are rotating. This is less likely to sustain directional movements.

Risk Management **Playbook**

Capital preservation is a trader's primary job. Returns are the by-product of passion and a commitment to process.

The risk framework cycle

01

Entry and sizing

Define max risk (1–2%) and position size before execution.

02

Monitor and adjust

Roll or hedge if the thesis is tested but valid. Reduce if it is invalid.

03

Profit taking

Scale out at 50–75% of max profit and move stops to breakeven.

04

Hard stop / exit

Exit immediately if max loss or the invalidation point is hit.

Four rules to trade by

■ Pre-plan adjustments

Know exactly how you will roll, reduce, or hedge before you enter.

■ Take winners systematically

Don't let significant gains turn into losses. Scale out as targets are hit.

■ Cut losers at thresholds

Stick to predefined max-loss levels. Hope is not a strategy.

■ Avoid binary events

Don't hold significant risk through earnings or data releases unless that is the intent.

CONCLUSION

KEY TAKEAWAYS

01 **Strategy** beats prediction

02 **Time and volatility** are your edges

03 **Market structure** matters

04 **Defined risk and discipline** drive execution

Your **Path Forward**

Essential tools and skills

Charting

Trends, key levels, VWAP, and moving averages.

Options mechanics

Pricing models, the Greeks, and efficient structure selection.

Flow and liquidity

Open interest, volume analysis, and liquidity magnets.

Process

Daily journaling, defined playbooks, and post-trade reviews.

Action plan

1

Build your checklist and template

Write a pre-trade checklist and entry template from your strategy rules.

2

Practice execution

Paper-trade multi-leg structures to master mechanics, then size up gradually.

3

Study the resources

Visit physikinvest.com to study the letter and core options texts.

4

Review continuously

Stay process-driven. Review your trades, journaling weekly to refine your edge.

Execution focus. Success comes not from predicting the future but from consistently applying a process that manages risk and uses time and volatility. Start small and let the edge work.

THANK YOU

Process is a key pillar in successful trading. With an understanding of how the market works as well as the structures available, you may be able to derive a fair return.

Contact

Renato Leonard Capelj
Founder, Physik Invest

renato@physikinvest.com
www.physikinvest.com

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