



In some ways, Wall Street is like a casino. Both have shiny lights, bells and whistles, with distractions galore and a myriad of different bets for the making. Wall Street and Vegas both profit from volatility, liquidity, distractions, and volume. Unfortunately for you, Wall Street and Vegas have the odds in their favor, and they don't really care if you win or lose. The bottom line is that both Wall Street and Vegas will turn big profits as long as enough people play their games.

The casino analogy doesn't walk on all fours. For one, not all investors and traders are gamblers. Great investors are more like entrepreneurs than gamblers, in that they take measured risk within a disciplined system. In the long run, most gamblers lose money. In the long-run, most disciplined investors make money.

In my daily newsletter, I report over-bought and over-sold signals based upon key signals of financial risk. My goal for the newsletter is simple: to help subscribers achieve their financial goals. Zig Ziglar says, *"you can have everything in life you want if you just help enough other people get what they want."*

### **Side Bets and Synthetic Securities**

Often in most casino games, side bets are more important and/or lucrative than the actual game itself. A perfect example of this is typified in the movie *The Big Short*. Selena Gomez is playing blackjack and explaining how the side bets she placed on her hand are like synthetic securities that are now pervasive throughout the financial markets. Both in the movie and in the real-world financial markets, the synthetic side bets are many orders of magnitude larger than the "real" bets.

In most financial markets, synthetic transactions dwarf the actual physical supply and demand of a security or commodity. This is true for stock certificates, barrels of oil, ounces of gold, and bushels of grain, to name a few.

As an example, each day the NYMEX WTI crude oil futures contracts trade as much as ONE HUNDRED TIMES the actual daily physical supply of crude oil. Think about this, the paper trading of crude oil IN ONE LOCATION (Cushing, OK), traded ON A SINGLE exchange (NYMEX) not including any over-the-counter or other exchange trading is often ONE HUNDRED TIMES the actual physical supply of crude oil over the ENTIRE United States. Such enormous differences hold true for almost every commodity.

Since trading activity in synthetic paper markets often overwhelm the physical markets, it is important for investors to stay informed of factors that highlight derivative risks and potential order flows. The options market often provides these clues and this is the crux of my analysis.

Option expiration (op-ex) is a key moment in time when profit is realized and risk is purged. All options bets and hedges on the books settle, roll over, close, or expire worthless on the op-ex timestamp. My work shows the repeatability of a few different dynamics as the date of op-ex gets closer. These include:

- *Mean reversion of market price prior towards delta neutral on or before op-ex.*
- *Forced selling and/or buying following a spike in market gamma.*

### **Counting Cards in the Casino**

*Synthetic paper*, including options and derivatives, are very complicated topics even for financial professionals. As such I believe it is essential to make my daily report as user-friendly as possible. I compile and process reams of data and boil it down to simple actionable advice. • When a market price is in the top 10% of aggregate risk to call sellers, I report an over-bought signal. • When a market price is in the top 10% of aggregate risk to put sellers, I report an over-sold signal. • This doesn't provide a definitive answer, but it does give a unique and potentially actionable perspective with defined risk measures.

If we are sticking with the Blackjack analogy, the program that I run each morning is a card-counting machine. • *Count the cards* so you don't have to.

### **Bloomberg and the Wall Street Journal Agree**

I am not the only one who sees the relationship between option risk and market price. Over the past year, there has been an increasing awareness in the financial mainstream media about *gamma* as a measure of market risk. In November 2018, Bloomberg suggested that [intelligence on market gamma can give advance notice of an oil market plunge](#). In July 2019, the Wall Street Journal reported that [intelligence on market gamma can explain why markets suddenly go crazy](#).

Bloomberg and the Wall Street Journal agree that *gamma* is an important concept for investors, however you cannot find actionable *gamma* data on a \$25,000 per year Bloomberg terminal.

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