D.P.D. - Defense Point Distribution

The Open Interest are outdated, the D.P.D. are the only real big innovation in the finance world since same lusters. The algo splits the real position from the synthetic position and displays the real exposition at the market. In this way the trader konws where, when and the size contracts, in other words he cans realize the real strenght of the resistance/support levels.
This processing needs of the underlying historical data which will then be required to connected broker.

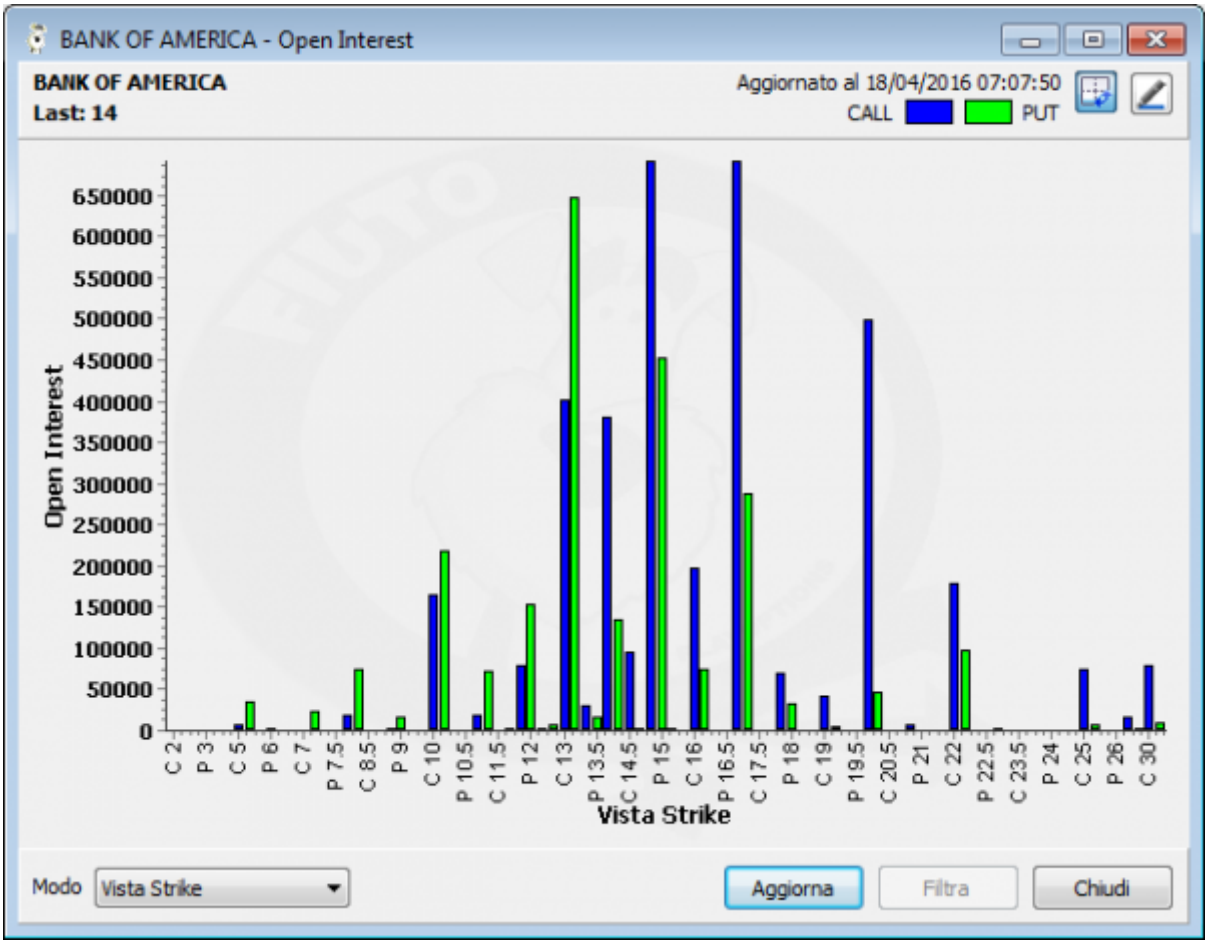
In order for the D.P.D. working properly it is necessary that the financial instrument under analysis has encoded Symbol Manager the Option Chain. Financial instruments with Chain Options are written in blue for immediate identification. For the encoding process of the financial instruments in beeTrader® looks manual Symbol Manager and specific instruction for each broker.

Premise: Open Interest VS D.P.D.

For this explanation it will use the free software Fiuto Beta.

The market expectations can be inferred from Option contract, the number of open contracts, is required by Clearing House which must ensure buyer and seller of each contract.

Then, simply, considering the number of contracts we have a first idea of expectation, of “market movers”. You will see that if there is more or less interest on Call or Put contracts.

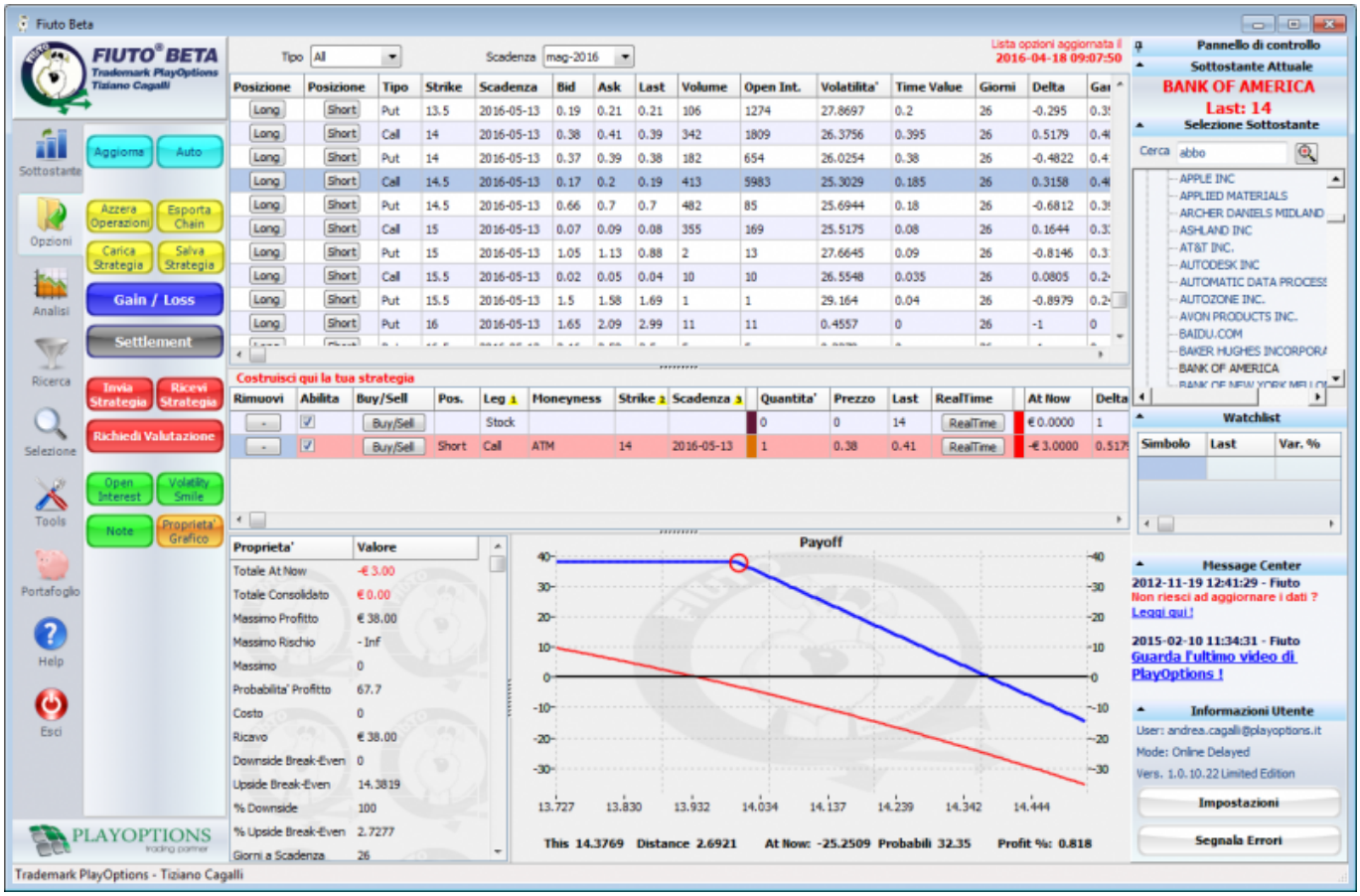


Now you have a clear graphic representation, in green the number and position of the Put, in Blu the number and position of the Call. It's true that each bar represents the number of open contracts and is true that each bar is representative of those who bought and who sold. Buyers and sellers are in equal numbers and then if we do not do an additional thinking, to know the contracts number, gives us no indication. What will the buyer if his contract is not in the direction you expected? Nothing! He will not do anything because he has no obligation, remember that he is the buyer, has already spent and will just wait and see. However the seller will trade on the market in two ways, can enter the underlying for rejecting the trend that would go ITM its Option, or it will cover, in practice it will stock what the contract sold will oblige him to deliver. Even in this case acts on the underlying and will modify the market trend.

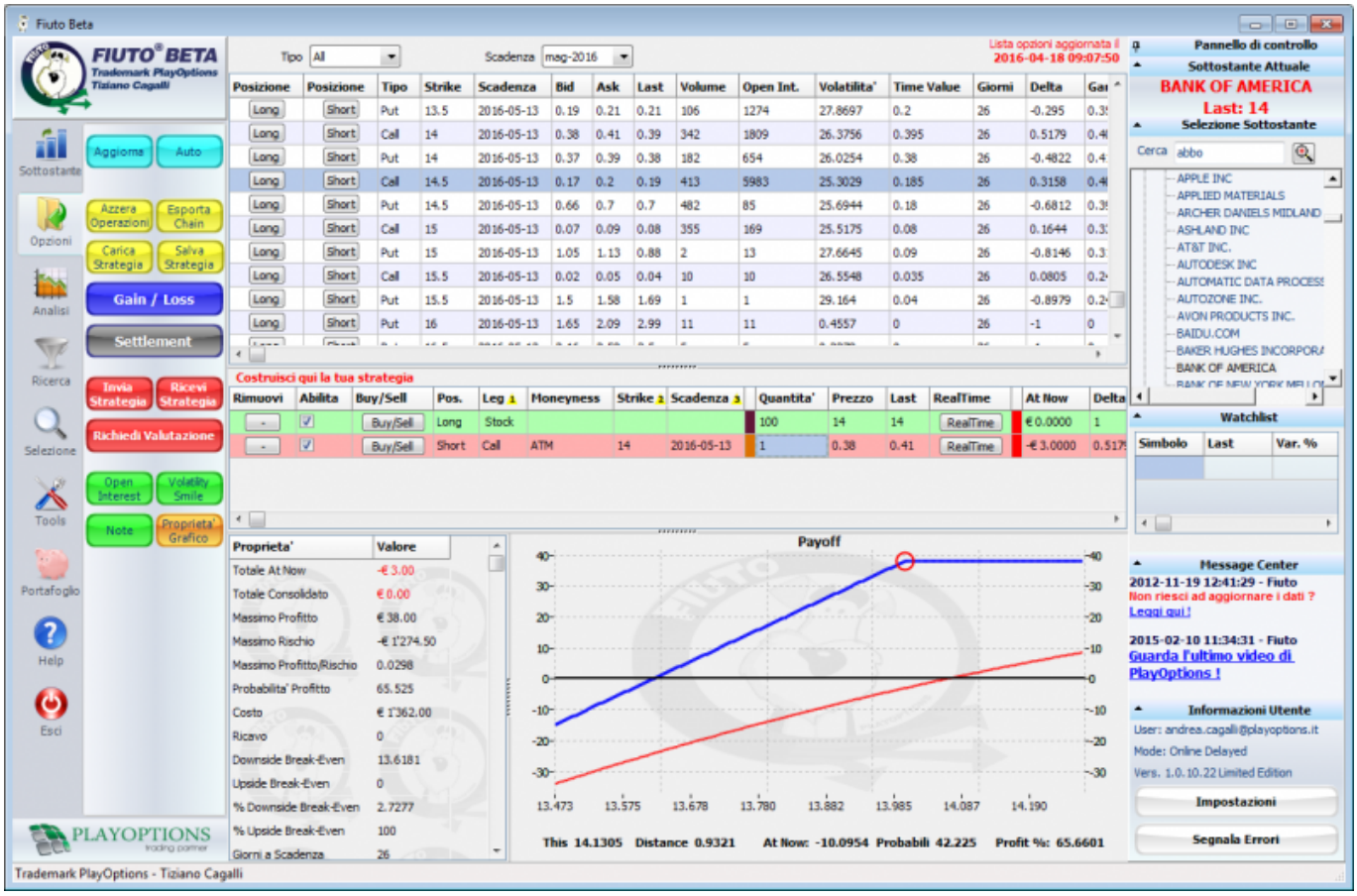
So, contrary to what you read in the literature, the number of option contracts are to be seen as selling contracts, so if the number of Cell is higher than that of the Put it means that the market expects a descent. Because of the error of interpretation that reads in the texts it is easily explained: texts are written some years ago and still had not permitted the sale of the options, but only the purchase.

Now we can rely on the number of contracts, on the type and on strike. Here we have the supports and resistances that are the real supports and the real market resistance. The buyer of option contract never intervenes in the market diverting the trend, while the seller must, depending on whether Call or Put, take action on the underlying in order to cover. That's why you have to consider the open interest, so it is called the number of open contracts, as part sold. At each level of open interest there will be a defense of the strike sold more or less intense depending on the strength that the seller has and that derives from amout. Another aspect that you must know is whether the contract is “true” or is synthetic. Example with a Call option:

- Sell 1 Call, as the Open Interest increases of 1. The reader will think the bear market.

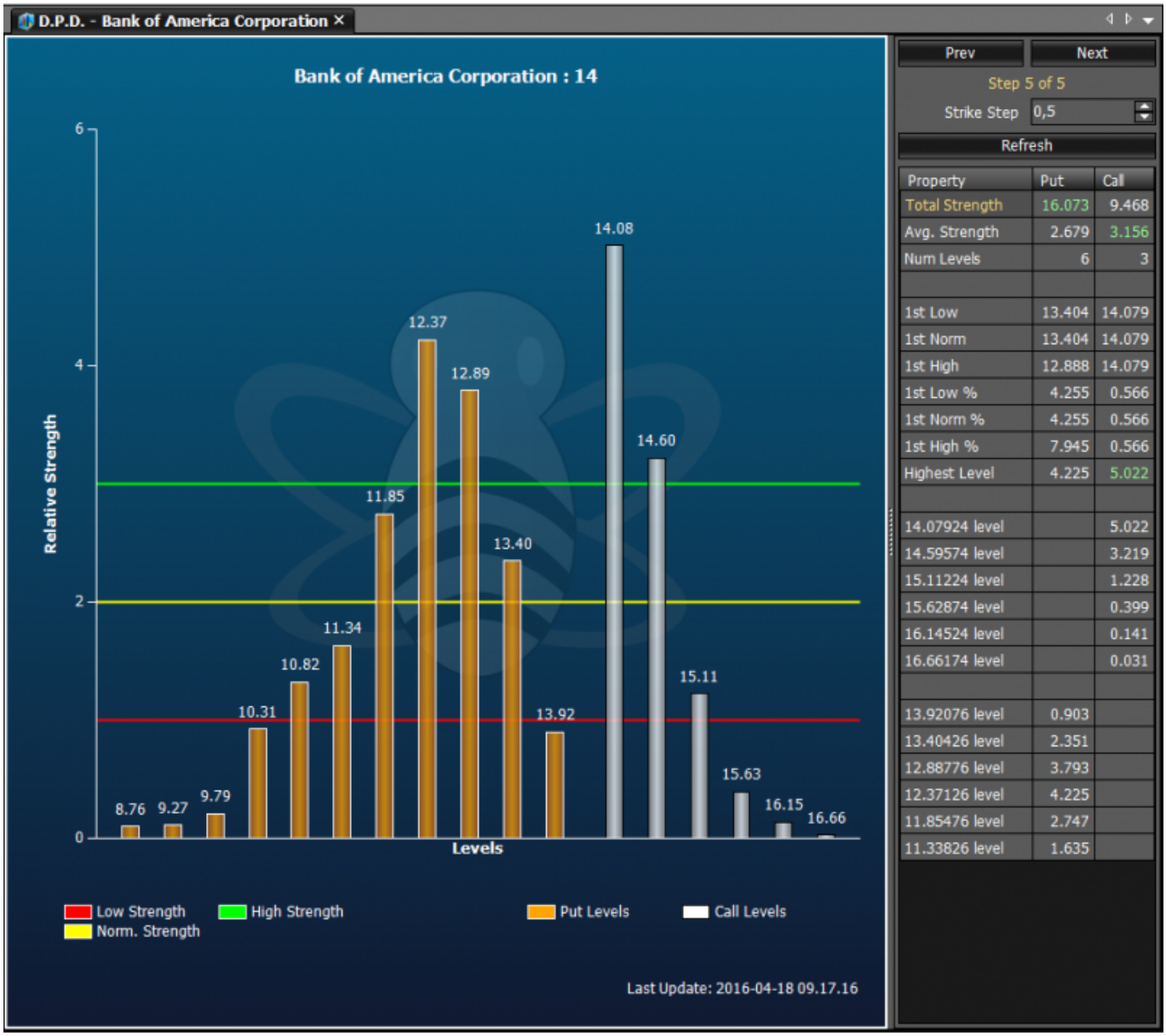


- Sell 1 Call e Buy 1 future, now the real position in a synthetic Put.



In practice what I want to show with these lines is that the reading of the Open Interest as is explained in the common literature NOT useless.

I remember to offer the possibility of not losing the precious information that you can get from knowledge of the institutional positions, Fiuto Beta has two instruments, the CIT and the LIT used for analyzing the daily movements.
CIT e LIT uses a delayed data, not realtime data, and require the recording of daily positions, so more suitable for non-professional operators.
Then we need for an instrument in real time and with a single answer, no interpretative. The solution is Iceberg that allows using real-time data and, accessing of PlayOptions server, get the subdivisions between real and synthetic positions.
Thus was born the first histogram the world that considers all these factors: the Defense points Distribution, that the map of the defensive positions that will be the support and resistance in the underlying trend.



How to see the image of the DPD is completely different to that of Open Interest, just to show that the system was passed several years ago and who continues to follow it or explain it is making a big mistake: forget the seller!

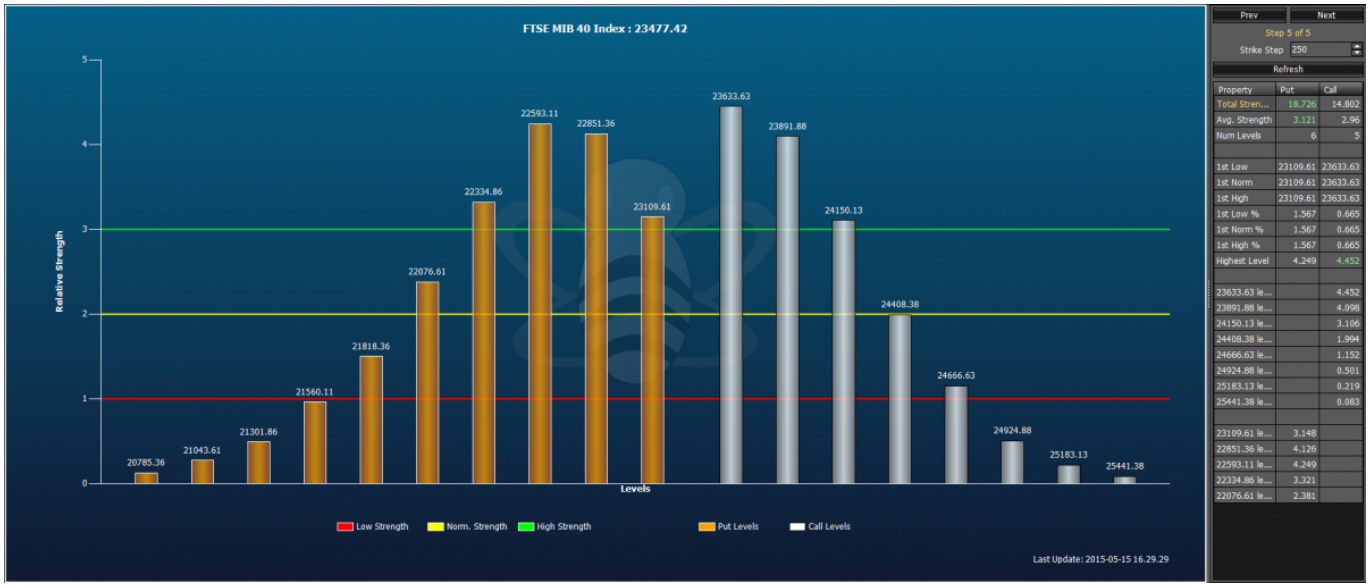
Let's take an analysis on the Bank Of America by the DPD:

Trend up that is detected by numerous Orange columns (Put), but with a strong resistance to the first level of Call (colonna grigia a 14.08). The resistance that offer will be strong because the relative strength, the money they have to spend, it is at a higher level than the Put sellers.
There are no doubts and interpretations, Today the strategy that needs to be done on this stock is bullish and strike engaged in the strategy must consider the price movement from 12.89 to 14.08.
Note that the D.P.D. no coincide with the exact strike as Open Interest but incorporate the amount that moves the moment of intervention in defense. The 14 strike will defense at 14.08, because the amount of options sale is 14,08 - 14,00 = 0.08.

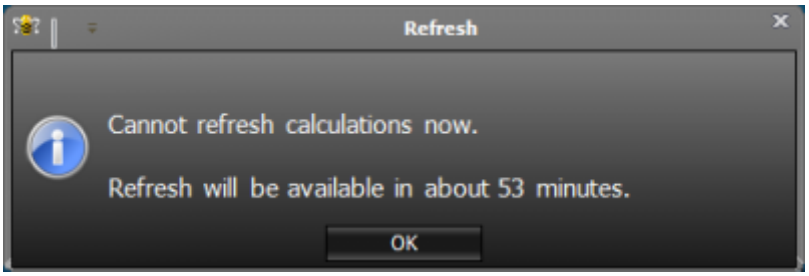
Example

The D.P.D. system is based on Relative Strength, then on the relative strength that opposes the overrun of the price level indicated by the financial instrument. Three horizontal lines are shown for ease of interpretation that represent the strength levels.

In the example below you can see how there is a resistance to the ascent to 23633.63, while descent is present a support to 23109.61, a stronger one to 22851.36 and subsequently to 22593.11.



“Refresh” button allows to update D.P.D. with new data, you can do a refresh every hour. Clicking on the “Refresh” button, if not already one hour after the last update, a window appears that notifies of the time remaining.



Strike Step Settings

Set to be used only for indexes, used to view the operations of large movers incorporating those of small traders who also work on intermediate strike on a weekly expires that are not used by institutional.
In the setting of the strike step should not exceed more than the interval between strike found the first monthly.

Example: FTSE MIB weekly strike step = 100, first monthly strike step = 250, annual expire strike step = 500. Step to use = 250

Entries Legend

- Total Strength: sum of strength subdivided into Call and Put
- Avg. Strength: average relative strength subdivided into Call and Put
- Num Levels: number of put and call levels with a relative strength exceeding Low Strength

- 1st Low: first level from security price with a relative strength exceeding Low Strength
- 1st Norm: first level from security price with a relative strength exceeding Normal Strength
- 1st High: first level from security price with a relative strength exceeding High Strength
- 1st Low %: distance % compared to the price of security and the 1st Low
- 1st Norm %: distance % compared to the price of security and the 1st Norm
- 1st High %: distance % compared to the price of security and the 1st High
- Highest Level: maximum relative strength subdivided into Call and Put

- 23633.63 level: first resistance Call (only for the example)
- 23891.88 level: second resistance Call (only for the example)
- 24150.13 level: third resistance Call (only for the example)
- ...
- x level ...: number of call resistance and the value are related to the security and market conditions

- 23109.61 level: first support Put (only for the example)
- 22851.36 level: second support Put (only for the example)
- 22593.11 level: third support Put (only for the example)
- ...
- x level ...: number of put resistance and the value are related to the security and market conditions