D.P.D. - Defense Distribution Point

The Open Interest is exceeded, D.P.D. They represent the only real big news in the world of finance since many years. Through the processing of all trade on the underlying asset and options, a complex set of algorithms on the server PlayOptions.it identifies the positions and premiums received, splits the synthetic position from the actual. beeTrader® shows you a histogram that do not require any interpretation. The computation needs historical data of the underlying. They will be requested by beeTrader® to the user's platform. The data will be sent to PlayOptions.it server to process them.

Selection Strike step: The strike step used is always the first monthly expire, can be useful to the user to increase the Strike step on which are calculated DPD, in this way it brings together the Strike that has become intermediate and consequently we have a wider vision.

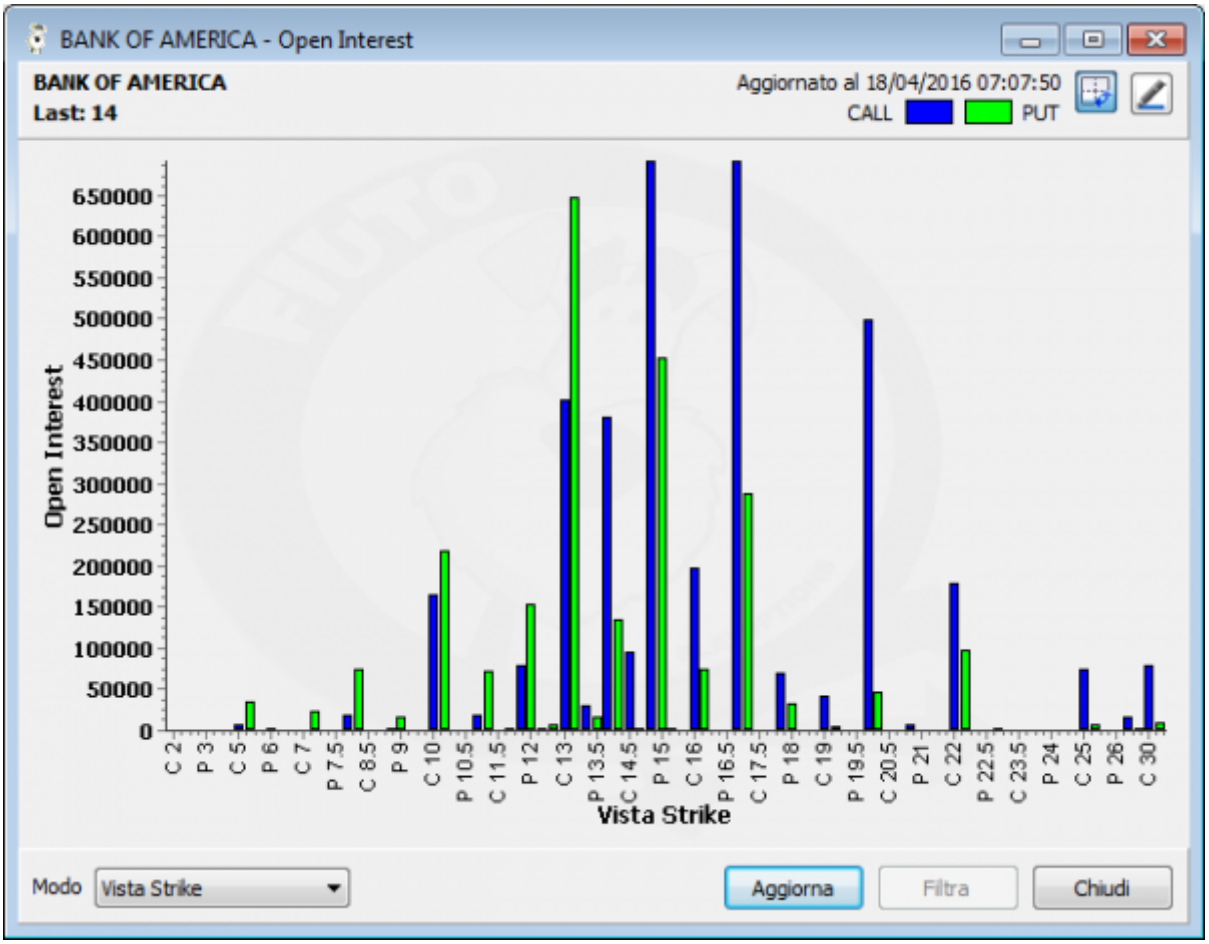
In order to work properly D.P.D. is necessary that the financial instrument under analysis is encoded Symbol Manager Chain Options. Financial instruments with Chain Options are written in blue for immediate identification. For the encoding process of financial instruments beeTrader® please refer to the manual of Symbol Manager and the specific instructions for each broker.

Introduction: Open Interest VS D.P.D.

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

The market takes position through derivatives Option contracts whose number of open contracts, is know by the clearing house which must ensure the counterpart of each contract.

So for every Call or Put contract, there is a seller and there is buyer
This suggests, evaluating the number of open contracts, the position of “strong hands.”



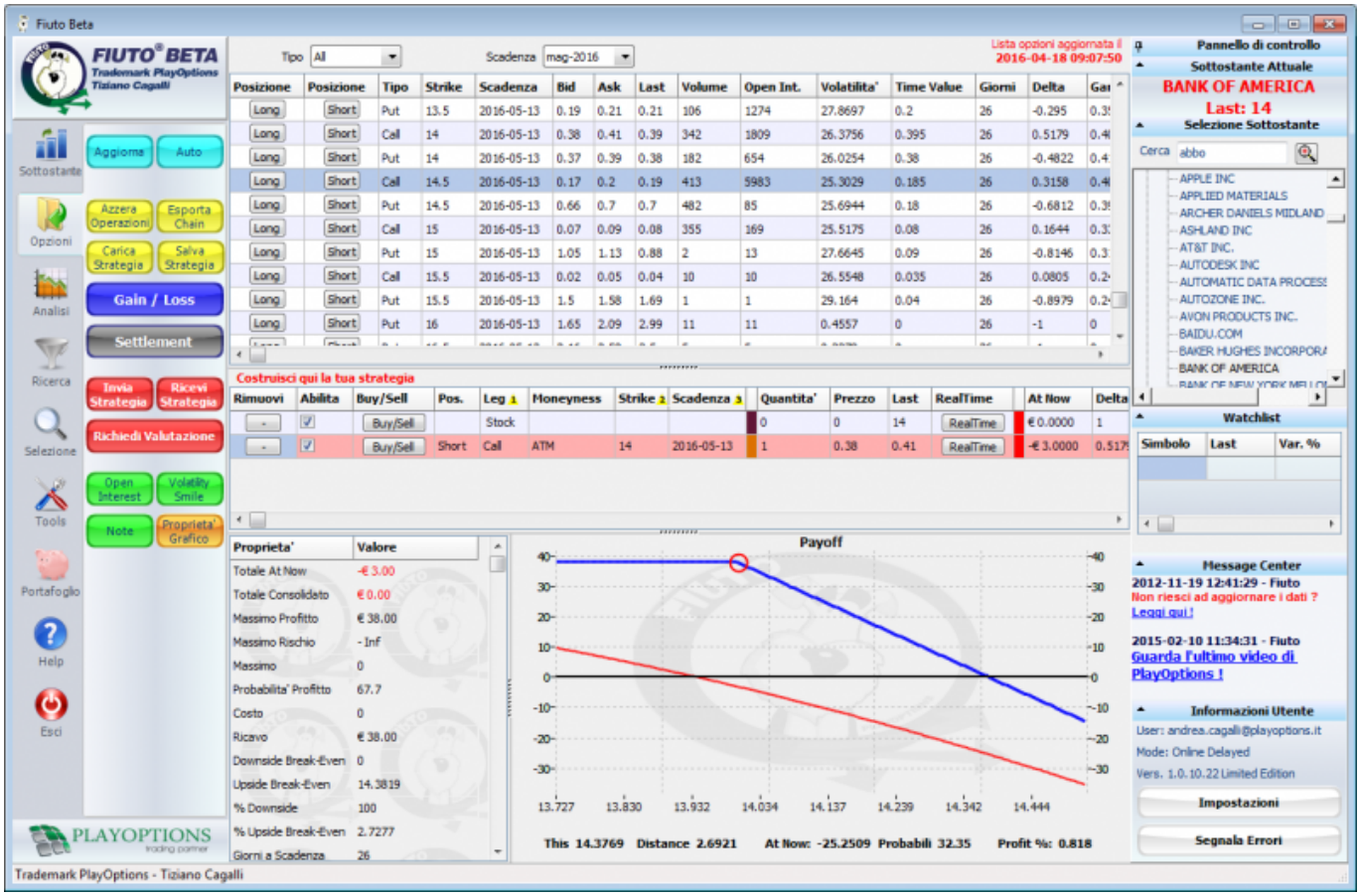
Having a clear graphic representation, in green quantity and position of Put contracts and in blue quantity and position of Call contracts, it’s time now to understand why the market is in this situation. The best way to do this, is to identify ourself as the strategist who effectively took that positions on the market. Each bar represent the open interest, but obviously the quantity of open long contracts is equal to the number of open short contracts. Thus knowing only the open interest doesn’t provide any useful indication. What will do a buyer if his contract isn’t in the expected direction ? Nothing ! It will do nothing because he doesn’t have any obligation, he is a buyer, he has already spent his money and he will only wait. The seller instead will take actions on the market, and he has two ways to operate: he can buy or sell the underlying in order to contrast the trend that is bringing his option in the ITM region; or he can cover his position, acquiring or selling the quantity of underlying contracts he is bound to by the Call or Put contracts he sold.

Thus, differently from what is usually written in books, option contracts quantity has to be considered as sold. If the quantity of Call is higher than the Put it means the market expects a fall. If the quantity of Put is higher than the Call it means the market expects a rise. Why the books give a different meaning to the open interest ? Books have be written many years ago, when short positions in option contracts were not allowed.

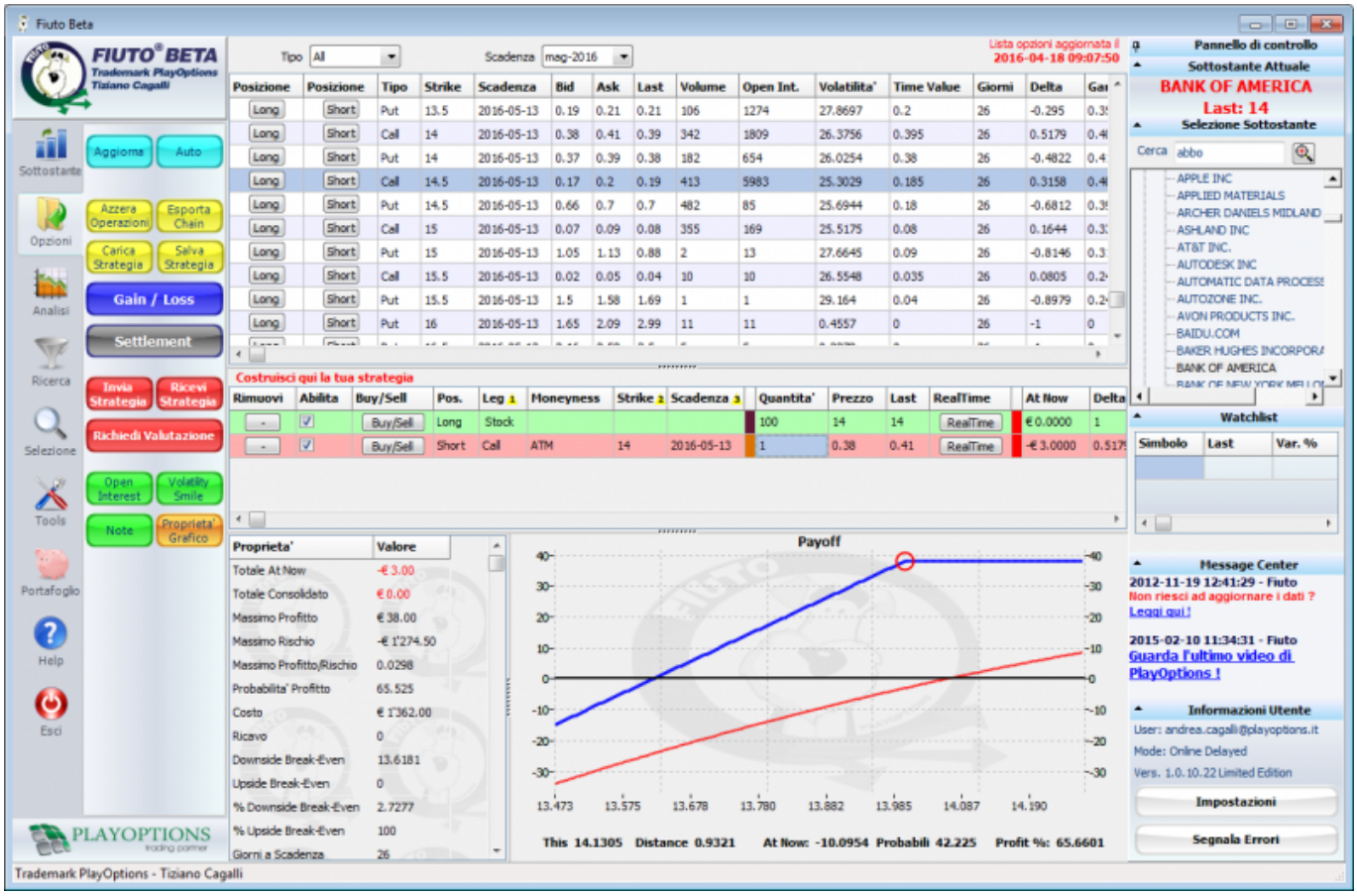
At this point, we can use the quantity, strike and type of contracts building the open interest. We have fake supports and resistances. Buyer will never take actions on the market in order to contrast the trend, while the seller will buy or sell underlying contracts to cover his positions. These are the reasons why open interest have to be considered as short. Ad each level of the open interest there will be a defense of the short strike, strong or weak, depending on the strength of the seller and the amount he has realized when he sold his options contracts. Another aspect that needs to be considered is if the contracts are “real” (naked) or part of a synthetic position.

Lets make an example with a Call:

- Sell 1 Call so the open interest increases by 1. Who reads it will think bear market.

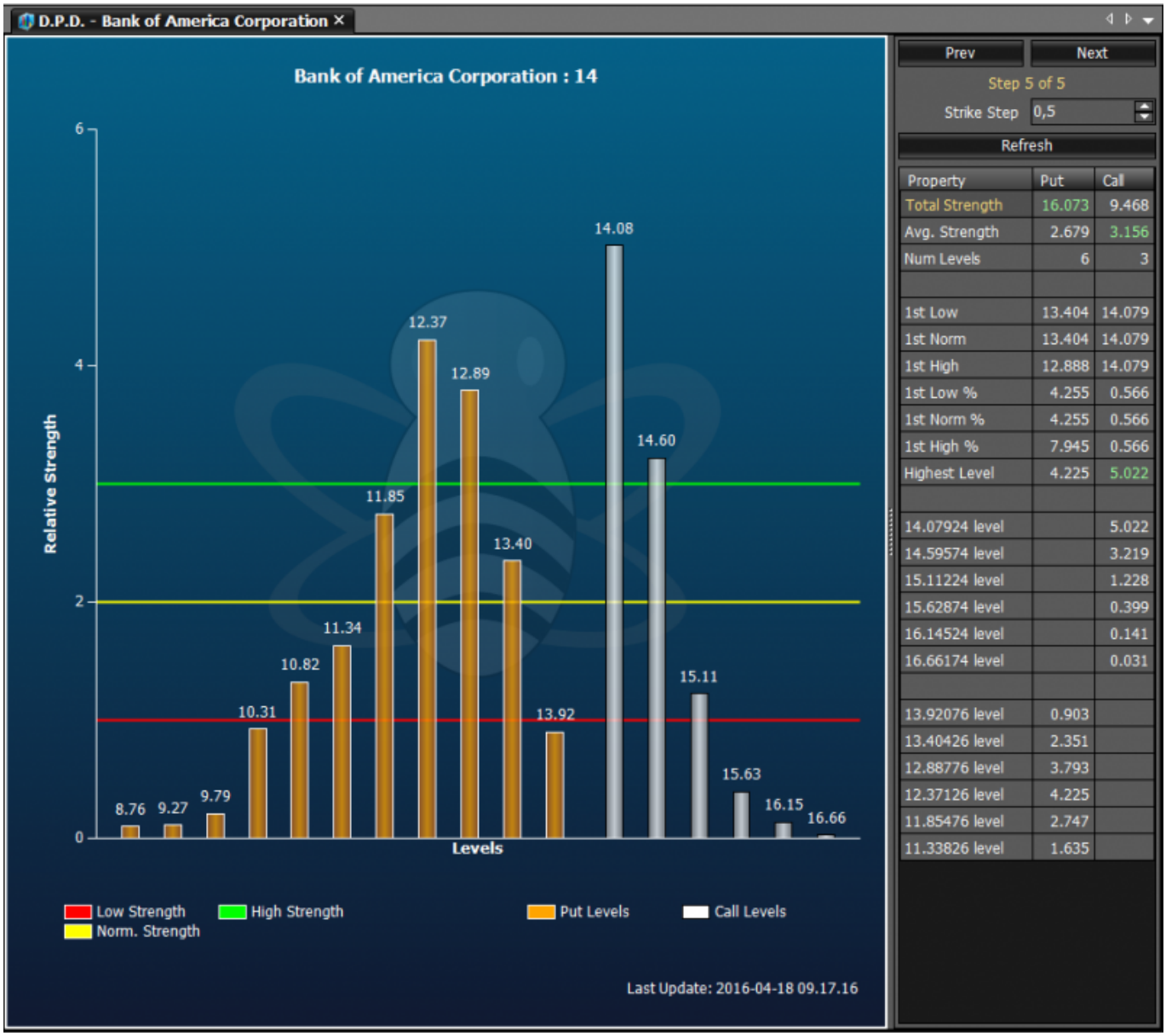


- Sell 1 Call and at the same time I buy one future and so my position becomes a synthetical Put.



Basically what I want to show with these lines is that the reading of the Open Interest as it is explained in the common literature is useless.

I Remember to offer the ability to not lose valuable information that can be obtained from the knowledge of institutional positions, Fiuto beta has two instruments, CIT and LIT used to analyzing daily movements.
The characteristic of these instruments is that, by analyzing non-real-time data, they offer a delayed response and they require the recording of daily positions, thus more suitable for operators not professionisti.
We the need a real-time instrument with an unambiguous answer. The solution came with Ibeberg that allows real-time data, accessing of PlayOptions server,you obtain the indispensable divisions between real and synthetic positions.
The Defense Points Distribution points,is the map of the defensive positions which will be the support and resistance in the path of the underlying trend.
In each trade of the futures we mark out all trade in option chain and with our algorithms we can identify positions premium received both. We group the output and we represent it as a histogram that, at this point, should not be interpreted, but only read.



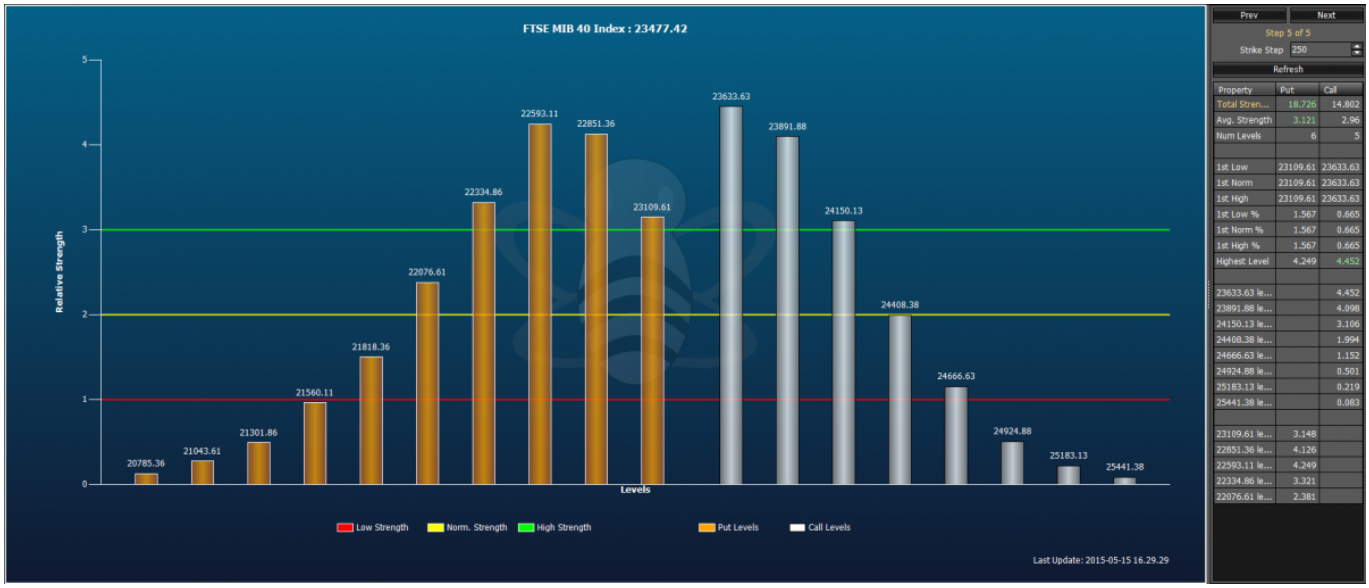
As you see in the picture the DPD is completely different from the open interest
\\let's make an analysis on Bank Of America reading DPD:

Uptrend detected by the numerous orange columns (Put) but with a strong resistance to the first level of Call (gray column on 14:08). The resistance that they will offer will be strong cause to the relative strength which is at higher level than the Put sellers.
There are no doubts, today we have to built a bull strategy.The price can move between 12.89 and 08.14.
Note that the D.P.D. no longer coincide with the exact strike as Open Interest but incorporate the premium.

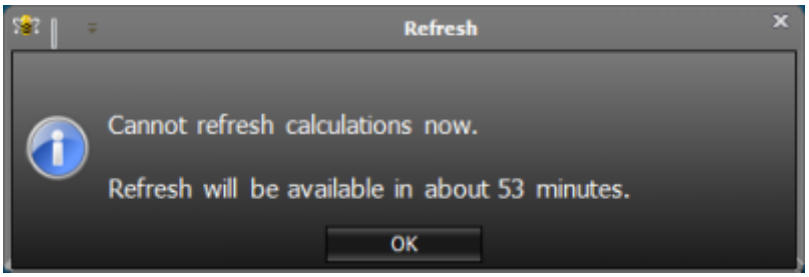
Example

Three horizontal lines are shown for an easy interpretation. They represent the relative strength

In the example below we can see a resistance at 23633.63 and a support at 23109.61, a stronger one at 22593.11 and 22851.36.



The “Refresh” button update the D.P.D. with new data, you can do a Refresh every hour. Clicking on button “Refresh”, if it is not spent an hour since the last update a window which initiates the time remaining appears.



The Defense Point Distribution and DPD Forecast Map are not comparable in fact the DPD is a photo in real time while the forecast is a projection based on previous movements.

Legend

- Total Strength: sum of its forces divided into put and call
- Avg. Strength: Average relative strength divided into put and call
- Number of Levels: number of put and call levels with a relative strength greater than Low Strength

- 1st Low: first level from the price of the financial instrument with a greater relative strength of Low Strength
- 1st Norm: the first level from the price of the financial instrument with a greater relative strength of Normal Strength
- 1st High: the first level from the price of the financial instrument with a greater relative strength of High Strength
- 1st Low%: distance% compared to the price of the financial instrument of the 1st Low
- 1st Norm%: distance% compared to the price of the financial instrument of the 1st Norm
- 1st High%: distance% compared to the price of the financial instrument of the 1st High
- Highest Level: relative maximum value of the force divided into put and call

- 23633.63 level: the First Call resistance price (relative to the example)
- 23891.88 level: the price of the second resistance Call (relative to the example)
- 24150.13 level: the price of the third Call resistance (relative to the example)
- ...
- X level ...: the number of Call resistences and their value are closely related to the financial instrument and market conditions

- 23109.61 level: Price of the first Put support (relative to the example)
- 22851.36 level: Price of the second Put support (relative to the example)
- 22593.11 level: Price of the third Put support (relative to the example)
- ...
- X level ...: the number of Put resistences and their value are closely related to the financial instrument and market conditions

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