# Hedging

Hedging section has two tab: Settings e Charts which will be analyzed.

# Video Tutorial

4	24/03/2016	Hedging - Cos'è l'hedging - Didattico	11:42
4	24/03/2016	Hedging - Impostazioni	18:44
4	24/03/2016	Hedging - Analisi	12:52

Clickqui to see other video Video di Iceberg

# Settings

In "Settings" is present the Wizard which allows the user to choose a hedging typology. On the right, the panel summarizes the settings .

The low section summarizes the strategy with leg, the payoff, the greeks course and the trades.



# Il menu - Settings

en:hedging http://manuals.playoptions.it/Iceberg\_old/en/hedging?rev=1470911922



# Strategy

Strategy		Open the sub-menu Strategy
Ä	New Strategy	It allows to create a new strategy
Å	Open Strategy	It allows to open a previous saved strategy
Ä	Save Strategy	It allows to save the strategy in use
Settings		open the window Strategy Settings for strategy settings

# Edit



# Hedging



# Charts

Template	open the sub-menu "Template"
Load Template	It allows to save the template of the payoff in use. Il template is the configuration of the Payoff
Save Template	It allows to load template previously saved and apply them to the payoff in use
Save as Default	it allows to save template in use as default for the next payoff
Reset Zoom & Pan	It allows to reset the zoom
Cross Hair	It allows to enable or disable the Crosshair for the payoff
Save as Image	It allows to save the payoff of the strategy in image format (*.png). The image will be saved to the Pictures folder of beeTrader, in the user's Documents
Print	It allows to print the Payoff of Strategy currently in use. Feature available on the PC in use if there is a printer

# Hedging Type

Hedge Type Thresholds	Hedging Type Legs to Hedge
Continuos Hedge: this type of hedging mantains the smallest possible Delta for the entire strategy life. As the strategy is risk-neutral towards underlying price movements, the final gain will be similar to interest risk-free rate. Thresholds Hedge: this type of hedging mantains the smallest possible Delta only when the thresholds are hit. As the strategy is not always risk-neutral towards underlying price movements, the final gain is obtained when the strategy is not hedged.	Thresholds ON/ OFF Assets to Use Orders Type Frequency Data Filters Preview
Hedging system is Disabled Previous	Next

Iceberg Options Solutions - http://manuals.playoptions.it/Iceberg\_old/

In "Hedging Type" the user can choose the hedging typology: Continuos or Threshold.

- Continuos: This type of hedging starts neutralizing Delta immediately and it buy/sell the instrument to mantain delta-zero for every price fluctuation. The advantage is that delta will be always next to zero. The disadvantage is that a huge amount of operations will be needed to mantain delta next to zero so we will have high costs of transactions and spreads. Continuos Hedging is usually used when the profit target is the free risk rate.
- Threshold: This type of hedging starts neutralizing Delta when underlying price reach to a threshold which is a price established by the user.

# Legs to Hedge

Name	Threshold (ON Level)	Threshold (OFF Level)	Hedging Type
Put @ 12 2016-06-17	11.99	12.01	Legs to Hedge
Cal @ 14 2016-06-17	14.01	13.99	Thresholds ON / OFF
			Assets to Use
			Orders Type
			Frequency
			Data Filters
			Preview
Thresholds: underlying price levels that activate or deactivate hedg	ing for each op	tion.	-
		Previo	ous Next

In the section "Legs to Hedge" you can choose the legs that you want to include in the calculation of the delta to protect.

# Thresholds ON / OFF

Name	Protect	Hedging Type
Put @ 11 2016-06-17		Legs to Hedge
Put @ 12 2016-06-17		Thresholds ON / OFF
Call @ 14 2016-06-17		Assets to Use
Cal @ 15 2016-06-17		Orders Type
		Frequency
		Data Filters
		Preview
Select the legs you want to be hedged (one or more)		-
Hedging system is Disabled	Previous	Next

In the section "Hedging Type" is selected Threshold mode, in Thresholds ON / OFF you can set the thresholds, for every legs, in which the hedging will be enabled(ON Level) or disbled (OFF Level).

5/12

### Assets to Use

Name	Used to Hedge	Add Stock	Hedging Type
Eni SpA			Legs to Heage
STOCK FUTURE Eni 17/06/2016		Add Other Future	Thresholds ON / OFF
		Add ETF	Assets to Use
		Add Option	Orders Type
			Frequency
			Data Filters
			Preview
Choose the assets that will be used to hedge the strateg	y.		-
Hedging system is Disabled		Previous	Next

In this section you can add the instrument (stocks, futures, options, ETF, etc.) to be used to neutralize delta.

# **Orders Type**

Hedge Order Direction	Contract Delta	Hedge Priority	Hedge Price Type	Hedge Use Smart Move	Hedge Smart Move Amount	Hedge Move	Hedging Type
Long & Short	1.000	Macro Adjustment	MARKET				Legs to Hedge
Long & Short	500.000	Macro Adjustment	MARKET				Thresholds ON / OFF
							Assets to Use
							Orders Type
							Frequency
	_		_	_			Data Filters
	Or	rders Placement Mode	Paper Trad	ling (Au 💌			Preview
Smart Move: the	s function ch	anges the order prices	s automatically	. You can choos	se time period and	price	•
						Previous	Next

- Name: it displays the instrument used for delta hedging and its settings;
- Order Direction: the user can choose the direction of order used to hedge the delta: Long, Short e Long & Short. This think is useful when options are used to hedge ;
- · Contract Delta: it represents the delta value expressed in euro of one contract;
- Hedge Priority: The user can choose between Macro Adjustment and Fine Adjustment.

Depending on the choice made by the user in the system will give priority to instruments indicated by Macro Adjustment to neutralize much of the delta and then use the instrument marked with Fine Adjustment to refine the delta hedging. If multiple instruments is associated with the same priority (Macro Adjustment and Fine Adjustment) the system will balance the delta dividing it evenly among the instruments. The most common use is to use futures as Macro Adjustment and stocks as Fine Adjustment;

- Order Type: the user can choose the type of order to use between Market, Join, Improve, Split, Shave, Hit & Take, Hit & Take +. For the description of Orders Type, click qui;
- Smart Move: the Smart Move system allows the sending of an order and the automatic change pf the price if it is not executed;
- Smart Move Amount (Ticks): it represents the price change between an order and the subsequent expressed in ticks;
- Smart Move Interval (secs): It represents the interval of time between an order and the next;
- Order Placement Mode: Here you choose how Iceberg must manage the delta hedging orders. Suggest Only: in this case the generation of an order in Iceberg is reported on the General tab, and the pending order is finalized in Real Market o Paper Trading. Paper Trading (Automatic): In this case the generation of an order it is automatically finalized Paper Trading. Real Market (Manual): in this case the generation of an order appears the book corresponding to sending the order in Real Market. Real Market (Automatic): In this case the generation of an order is automatically sent to the broker with the price of the type previously set. For any order, generation is conditioned to Date Filters.

# Frequency

Mode Contracts 💌							Hedging Type		
Name	Hedge Min. Qty	Contract Delta	Contract Gamma	Contract Theta	Contract Vega	Contract Rho			Delta Threshold
Eni SpA	1	€ 1,00	€ 0,00	€ 0,00	€ 0,00	€ 0,00			Legs to Hedge
STOCK FUTURE Eni 15/12/2017		€ 500,00	€ 0,00	€ 0,00	€ 0,00	€ 0,00			Thresholds ON / OFF
									Assets to Use
									Orders Type
							Frequency		
									Data Filters
	Delt	a 0 with toler	ance ± Not						
Setup the hedge frequency to avoid useless or too close corrections.									
Hedging system is Disabled Previo					Previou	is Next			

This section allows to set the control frequency of the strategy's delta, or the system will calculate delta. Four modality are disponible:

- Contracts: the system hedge the delta only after the specify number of contract definite in Hedge Min. Quantity is reached. It is possible to choose the minimum amount for every instrument ;
- Time Interval: the system checks whether is necessary hedge the delta every Time Interval (minutes);
- Time of Day: The system checks whether is necessary hedge the delta in a determined hour of the day ;
- Price Change: The system checks whether is necessary hedge the delta after a % underlying price change .

# **Data Filters**

Max Bid/Ask Spread (Options)	Hedging Type
	Legs to Hedge
Tick is not Zero	Thresholds ON / OFF
Max Tick Interval	Assets to Use
	Orders Type
Check Bid/Ask (Underlyings) NOTE: Last is always checked	Frequency
Check Last (Options) NOTE: Bid/Ask are always checked	requercy
	Data Filters
Options presents different prices peculiarities, for example very high Bid/Ask spreads. You can select how to check for prices correctness and thus determine when to automatically calculate hedge orders.	Preview
Hedging system is Disabled Previous	Next

There are available price filter in order to avoid problem with price exposed by the market maker .

- Max Bid/Ask Spread (Options): it verify that spread between bid and ask of the options in the strategy do not exceed a setted %;
- Tick is not Zero: It verify that last tick for every instrument of the strategy is not zero;
- Max. Tick Interval: it verify that time between a tick and the subsequent occurs within a certain time-range, for every strategy instrument;
- Check Bid/Ask (Underlyings):
- Check Last (Options):

As indicated a check on bid-ask option price price and on the last of the underlying is always effectuate in order to ensure the correct data flow between the broker and iceberg

#### **Preview**

Name	Contract Delta	Hedge Order Direction	Hedge Priority	Hedge Min. Qty	Qty	Hedge Qty	Hedging Type
Eni SpA	1.000	Long & Short	Macro Adjustment	1		66	Legs to Hedge
STOCK FUTURE Eni 17/0	500.000	Long & Short	Macro Adjustment	1		0	Thresholds ON / OFF
							Assets to Use
	Orders Type						
							Frequency
Data Filters Results	Data Filters						
No Errors							Preview
							1996-19 <b>7</b> -1996-1996
Hedging system is Disabled						Previous	

A preview of the instrumets used to hedge the delta and related quantity at market (Qty) and the quantity that should be used to neutralize the delta (Hedge Qty).

# Charts

Iceberg records every hedging operation in order to premise the user to analize the settings and to optimize the hedging strategy.



# Il menu - Charts

÷	(FR)				Option Put @ 9550 2016-06-17 -
		3	TimeFrame 1 Min 🔹	Leg Put @ 9550 2016-06-17 -	TimeFrame Daily -
Strategy S	Settings	Enable			Bars Count 500 👻
Churches		Hedging	Dalla Chatany Chat	Us das Chart	Theorematic Analysis Chart
Strate	egy	неаділд	Delta Strategy Chart	Hedge Chart	i hresholds Analysis Chart

# Strategy

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# Hedging



# **Delta Strategy Chart**

Timeframe it is possible to choose the timeframe of the graph which represents the Delta

# Hedge Chart

Leg It is possible to choose the instrument for delta hedging, see the graph with profit/loss and the number of contract of delta hedging

# **Thresholds Analysis**

Option	It is possible to choose which option of the strategy the threshold are showed on the underlying graph
Timeframe	It is possible to choose which timeframe of the underlying graph the threshold are showed
Bars Count	It is possible to choose how many bars are showed in the underlying graph

# **Delta Strategy**



In this graph is visualized the delta value of the hedging strategy since it was activated. From the menu you can choose the time frame of the graph.

# Hedge Size



This graph shows the number of contracts used in every operations of hedging since hedging was activated. From the menu Hedge chart it is possible to choose, which instrument used to hedge is displayed .

# Hedge In / Outcome



With reference to the chosen instrument in hedge Chart, in this graph are represented all profit / loss related to delta hedging operations.

# **Thresholds Analysis**



In the graph is displayed Thresholds Analysis of the historical graph of the underlying (timeframe e bars count can be selected dal menù Thresholds Analysisi Chart) with the threshold set for the selected option in the menù Thresholds Analysis Chart.

This chart is very useful to analyze the position of the thresholds setted in relation to the number of times that have been touched.

#### Report

Hedging Report : 2016-03-14 14.45.03	DAX 30 Index
Strategy will end in: 95 days Total Realized with Hedging: € 1760,53 Total AtNow with Hedging: -€ 1253,03 Number of hedging trades: 07 Avg. Realized per trade: 0 20,24 Max. Gain in single trade: € 237,61 Max. Loss in single trade: -€ 167,00 Avg. trades per day: 22.3 Max. Contracts per trade: 30 Min. Contracts per trade: 1 Avg. Strategy Delta: € 27,54 Max. Strategy Delta: € 59,38 Num. Times Threshold OFF: 44	Mund

A useful report, accompanied by the underlying tick chart, it provides the user a clear view on the performance of its delta hedging settings.

