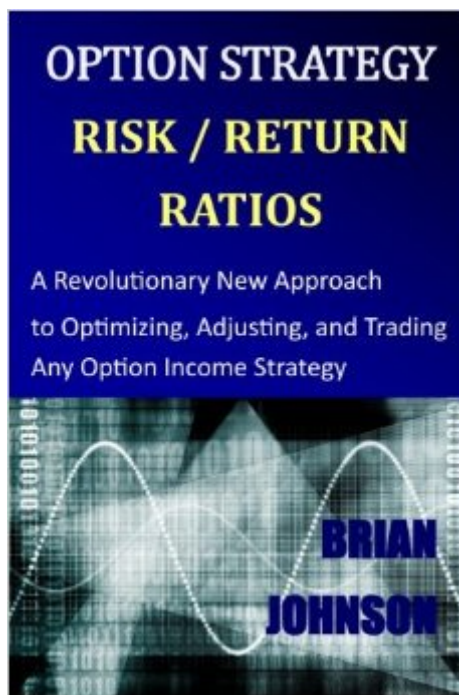


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# Option Strategy Risk / Return Ratios: A Revolutionary New Approach To Optimizing, Adjusting, And Trading Any Option Income Strategy



## Synopsis

Written by Brian Johnson, a professional investment manager with many years of trading and teaching experience, *Option Strategy Risk/Return Ratios* introduces a revolutionary new framework for evaluating, comparing, adjusting, and optimizing option income strategies. Drawing on his extensive background in option-pricing and on decades of experience in investment management and trading, Brian Johnson developed these tools specifically to manage option income strategies. Unlike crude rules-of-thumb, these revolutionary new tools can be applied to any option income strategy, on any underlying security, in any market environment. Risk and return are timeless concepts in finance and trading, but this is the first time both concepts have been integrated successfully into a consistent approach for managing option income strategies. *Option Strategy Risk/Return Ratios* is written in a clear, easy-to-understand fashion and explains how to apply risk/return ratios to condors, butterflies, calendars, double diagonals, and even hybrid income strategies. Created especially for investors who have some familiarity with options, this practical guide begins with an examination of option income strategies and is followed by a review of the option Greeks, the building blocks of option risk management. Next, a critique of common adjustment triggers lays the foundation for a detailed explanation of these exciting new tools: option strategy risk/return ratios. Each option income strategy is explained, evaluated, and ranked using these new tools with complete descriptions and graphical examples. The book includes over sixty separate graphs and tables to illustrate how risk/return ratios behave using specific strategy examples in actual market conditions. The risk/return ratios are then used to introduce a new hybrid strategy that combines the best characteristics of the other income strategies. Finally, the last chapter examines practical considerations and prospective applications of these innovative new tools. Not only are the formulas provided for every calculation, but each risk/return ratio is explained intuitively and depicted graphically. For traders who are not mathematically inclined, *Option Strategy Risk/Return Ratios* also includes a link to an Excel spreadsheet with macros designed to calculate all of the risk/return ratios introduced in the book.

**About the Author:** Brian Johnson designed, programmed, and implemented the first return sensitivity based parametric framework actively used to control risk in fixed income portfolios. He further extended the capabilities of this approach by designing and programming an integrated series of option valuation, prepayment, and optimization models. Based on this technology, Mr. Johnson founded Lincoln Capital Management's fixed income index business, where he ultimately managed over \$13 billion in assets for some of the largest and most sophisticated institutional clients in the U.S. and around the globe. He later served as the President of a financial consulting and software development firm, designing artificial

intelligence-based forecasting and risk management systems for institutional investment managers. Mr. Johnson is now a full-time proprietary trader in options, futures, stocks, and ETFs primarily using algorithmic trading strategies. In addition to his professional investment experience, he also designed and taught courses in financial derivatives for both MBA and undergraduate business programs. He has written articles for the Financial Analysts Journal, Active Trader, and Seeking Alpha and he regularly shares his trading insights and research ideas as the editor of [www.TraderEdge.Net](http://www.TraderEdge.Net). Mr. Johnson holds a B.S. degree in finance with high honors from the University of Illinois at Urbana-Champaign and an MBA degree with a specialization in Finance from the University of Chicago Booth School of Business.

## Book Information

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## Customer Reviews

As I read this compelling book I became more and more eager to use its option strategy. However, upon finishing the book and downloading the Excel spreadsheet that comes with it, I found that the time needed to create risk return ratios made the strategy impractical to use. According to its description on [Amazon](#), this book [includes a link to an Excel spreadsheet with macros designed to calculate all of the risk/return ratios introduced in the book.](#) • The Excel spreadsheet will not produce any of the book's tables and charts. Rather, it calculates one data point for each of three risk/return ratios (RRR). The calculation is based on the price of the underlying stock, the current and historical implied volatilities of that stock, the Greeks (Delta, Gamma, Vega, Theta and Rho) of the spread that was developed from the stock options, and the risk-free interest rate. These data must be transferred from an outside source, such as a trading platform, to the spreadsheet in an Excel-compatible format. In return, the spreadsheet calculates a single data point for each of three

RRRs: a reward that, in my opinion, is not worth the effort. With a basic understanding of Excel, you can create a table that combines the spreadsheet's inputs and outputs and looks like the tables in the book. The book's tables, however, provide nine data points for each RRR while the spreadsheet that comes with the book calculates only one at a time. If your trading platform can calculate Greeks from different stock prices, and you are willing to spend several hours transferring these data to the spreadsheet, you can create a table that provides the same information as those in the book. Figure 1 (attached to this review) includes a table that was created in the above manner.

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