



Haircut Snippets

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Basket Weaving 101

Len Bole

The proper treatment of baskets is an important element of the RBH system offered by LDB Consulting. Baskets are checked for proper capitalization, proper hedging and correct ratios of the stocks within the basket.

If you utilize RBH to haircut baskets or if you take advantage of the more advanced optimization routines Weaver™ and Wrapper™, it is important that you understand and are comfortable with the methods used by the programs to generate their results.

An informed user is a more proficient user of these tools. With that in mind, LDB has constructed a 2-3 hour class on baskets, weaving and wrapping.

If users indicate sufficient interest, we hope to offer 2 sessions in the spring in NY and another in Chicago. In addition, the presentation can be given to a single client at the client's site.

If you are interested in such a presentation, please contact us. The charge for an individual client presentation will be based on the hourly consulting rate. Cost per individual at a group presentation will depend on demand and facility costs.

We will work on procuring possible sites once we get a feel for interest on your part.

OMO Plus

OMO Plus is now available to calculate Day Trader margin requirements. The system contains all the functionality of OMO (Option Margin Optimizer) plus the added utility for Day Trading calculations. The system allows users to

indicate exceptions by account to the standard 4 to 1 leverage requirement.

This module is a separately priced add on to OMO. Contact Charlie Greiner at 219-477-9007 for additional information.

What's New

With the success and acceptance of the Customer Upgrade/Support Package (over 70% of clients have subscribed to the service), we have worked diligently to produce the latest upgrades for RBH, Fixed Income and OMO. Programming is complete, RBH 6.0 has been rolled out and the other products are in various stages of beta testing. A brief recap of their features follow.

Please contact us for additional details on any of the products that interest you.

RBH 6.0

RBH 6.0 was introduced in February. Written in Visual FoxPro 7.0, it offers direct access to RBH documentation, calculates undue concentration on ETFs per NYSE/SEC requirements and provides for recognition of relief on non-OCC defined baskets.

Reports have been enhanced to facilitate reconciling RBH positions with in house inventory and reviewing charges in the summary report to locate areas for improvement.

OMO 3.0

If you thought boxes and butterflies were boggling, wait till you consider condors, iron butterflies and iron condors. These complex spreads, resulting when multiple spreads currently recognized for relief overlay each other, have been recognized for relief by the CBOE. Word on the street is that the NYSE may include the relief in rule 431 some time this spring.

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OMO 3.0 now recognizes these spreads for relief. The system also identifies the time versions of each of these spreads as well as time butterflies. The user may disable the relief for any of these complex or time spreads via the rates file.

The system now handles short against the box calculations and produces a naked short option report for those clients who need to track these naked securities by account.

Short against the box calculations can be done before optimization or optimization may be run with both long and short positions, with remaining long/short stock subject to the short against the box charges.

OMO 3.0 has just been sent to beta.

Fixed Income 5.0

The big news about 5.0 is the inclusion of relief for Mortgage Backed Agency securities as afforded in the December 1996 Salomon no action letter.

But we didn't stop there with new features. The system now recognizes aged affiliated securities and allows users to modify security types automatically by cusip prefix. This helps people deal with Canadian provincials and CATs.

The system operates in EOM and Simulate mode as well as traditional mode.

EOM allows end of month data to be segregated from daily data so that haircuts may be computed daily without interfering in the ongoing process of producing monthly FOCUS reports.

Simulate mode disables position and ratings imports. This makes it difficult for a user who has made changes to data to inadvertently overwrite those changes by doing an errant position file import.

Fixed Income 5.0 will be placed in Beta in a late March/early April time frame.

No Wooden Nickels

An old joke involves a restaurant patron who is presented with a bill after receiving a less than stellar meal and truly rotten service. The patron pays the bill and goes to leave without offering a gratuity. The waitperson is irked and demands a tip. The customer responds, "You'd like a tip? OK, here's one: don't take any wooden nickels."

NO WOODEN NICKELS will be a regular feature in each newsletter and will contain tips and tricks of the trade that we hope will come in handy.

Charlie and I work with these systems on a daily basis and employ a number of techniques to get where we're going faster and with a minimal amount of muss and fuss.

In talking to clients, we discover things they do and things they want to do that did not occur to us. Or, if we did think of them, we may never have thought of sharing our workarounds with anyone.

We intend to share some of our hints in this issue and in future newsletters.

Fixed Income: Position Listing

Our tip for Fixed Income Haircuts has to do with generating and reviewing a position listing without waiting for an entire run.

Depending on the size of the position file and the speed of the resident computer, a Fixed Income run can consume 20 or more minutes.

In preparing data for monthly FOCUS reports, many customers spend considerable time reviewing bond values and reconciling them to their general ledger. This may entail frequent alterations via the simulate menu, followed by a rerun to check that the changes were properly included.

What they want to review is a position listing and they often wait for the entire run to view the results of their changes.

WAIT NO MORE!

When the Fixed Income progress window shows "Sorting positions", the position report has been generated.

You may interrupt the system by depressing the ALT key and hitting the F4 function key. This will interrupt and exit the system.

Simply restart the application and go to View or Print Reports to examine the Position listing. No need to wait for an entire haircut run.

OMO: Short Put Butterflies

OMO likes to identify butterflies when looking for margin savings. A butterfly removes 2 short options and that's good. However, a butterfly also removes 2 long options, one or both of which may be better used in a simple credit or debit spread.

Since the margin on a short put butterfly is identical to the margin on its component spreads (a credit and debit spread), there is no real margin advantage to identifying a short put butterfly.

Because the identification of short butterflies may result in a less than optimal charge, OMO has never identified short call butterflies. Users may now opt to turn short put butterflies off as well.

In the Maintain menu, go to Rates file. In the Rates file, go to the last line: XCESS SHORT FOR EQT CCC. Rate2 contains the short put butterfly toggle. Set it to 1 to turn it off. It is set to 0 (ON) by default.

Electronic Newsletter

If you can receive this letter via email, please provide me with your email address. If there are others in your organization that ought to receive this missive, please provide their email address to me as well. You can email me at: LDB-LENBOLE@att.net

No Mas...

If you do NOT want to receive future issues of this newsletter, please email, write or phone me and I will gladly remove you from my mailing list.

