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Haircut Snippets

Once We Move to .NET…

Len Bole

Can indoor plumbing and electricity be far behind?

As we enter the second 20 years at LDB Consulting, we have begun to work on rewriting our Visual FoxPro code and utilizing contemporary technologies such as SQL and .NET.

As a first step, we took our Repo/Reverse Repo application (RRR) and hired a consulting firm specializing in migrating VFP code to .NET to port the application.

Early this year, the .NET version was delivered. We will spend the next few months testing, debugging and familiarizing ourselves with the new programming paradigm that .NET and SQL represent.

Once we are at peace with what we have, we will offer the new version to clients and begin work on porting the next of our modules to this environment.

Please contact us if you have questions or comments about the rewrite.

Basket Weaver™

As most of you know by now, the Basket Weaver™ is a useful tool in identifying baskets when existing systems are unable to differentiate among stock hedged by options and stock that may be part of multiple baskets.

In addition to identifying baskets that are explicitly being traded, the Weaver™ is also capable of forming properly hedged and properly capitalized baskets from positions that were not originally traded as baskets. In tests run for clients not explicitly trading baskets, the Weaver™ has formed baskets and reduced haircuts by 6%-10%.

The most likely candidates for baskets are the broad based indices like the Dow Jones Industrials, the S&P 500, the S&P 100 and the NASD 100. Earlier this month it was possible to create baskets with sufficient capitalization in: the S&P 500 by using fewer than 55 stocks; the S&P 100 by employing fewer than 20 stocks; the NASD 100 with fewer than 15 stocks; and the Dow Jones Industrials with fewer than 12 stocks.

Distinct versions of this product exist for both haircut and margin clients. Please contact us to explore the impact of using this tool to lower your charges.

Wrapper™

Now that we've talked about the Weaver™, it seems patently unfair not to spend a bit of time talking about its cousin, the Wrapper™.

Because more narrow based baskets may be constructed with Weaver™ settings that differ from those that create more/better broad based baskets, the Wrapper™ was created to test multiple scenarios based on separate settings for broad and narrow based baskets.

In addition, Wrapper™ instructs the Weaver on the maximum number of baskets that should be made within a given product. Without that information, Weaver™ is inclined to make as many baskets as possible within a product, even if those baskets do not result in the optimal haircut.

Since the Wrapper™ may run as many as 20 different RBH and Weaver™ runs, it takes more time to run. A new version to be released in Spring of 2008 will allow users to run Wrapper™ on two machines or in 2 instances on a dual core machine. The user will need to examine the results of both to determine which run was best, but in tests it has reduced total elapsed time by over 40%.

Ladies and Gentlemen,

I present to you: Chris Kemper.

Chris has two Bachelor degrees from Indiana State University: Aviation Administration and Professional Aviation Flight Technology. He has taken numerous systems and programming courses and is now pursuing his MBA. In addition, he is a licensed pilot.

Chris will be stationed at our new Aberdeen office and may be reached via phone (312-235-6944) or email (ck_ldb@comcast.net).

LDBCI.COM

Our web server has hosted our home page for quite some time now. Other pages on our site have remained on the ATT servers.

With the publishing of this newsletter all of our web pages will migrate to the LDB server and no longer be available on ATT. If you have retained links to the ATT pages, clicking on them should get you redirected to the new site.

This server also contains our secure download site through which we disseminate new software releases AND our secure upload site where users may transmit large files for us to examine rather than trying to transmit them via email.

Within the next few months, our email accounts will also move to our server. More on that in future newsletters.

No Wooden Nickels: A Tip or Two

Special Data File: Security Type

When determining how many baskets may be hedged, it is important that both RBH and RBM know the shares per contract value for hedging securities. This value is also referred to in the industry as contract multiplier.

User may include the value in their position files or can set a default value in the INI file. Users may also avail themselves of the Special Data File where they may indicate the proper multiplier by symbol.

The multiplier is used to determine how many baskets may be hedged AND to compute the value of futures and options in the position file and on the balance report.

Unfortunately, a number of symbols are ambiguous and exist as both F and S or O and I. Examples are R (Ryder/ Russell 1000 future), ES (Energy Solutions/ SP E Mini future), and RL (Ralph Lauren/Russell 2000).

When matching only on symbol, the multipliers were used for both the stocks and futures and their respective options. Haircuts were not affected by this, but the security values on the balance report were distorted.

The Special Data file now allows for the inclusion of security type in the SEC_TYPE field of the file so that the data in this table only affect the multiplier of positions matching both symbol and security type.

NEW_TIO.TXT Will Be GONE

Since the OCC is no longer providing their PL files to clients via the Internet, the usefulness of the NEW_TIO.TXT file is kaput. The file was a criterion file that could be loaded by the user via the OCC web site to indicate exactly which securities needed to be downloaded. In the next release, this file will be GONE. We do not believe anyone made use of this for anything other than OCC access, but we wanted to alert people ahead of time.

Option Expiration Day

Would it be a Haircut Snippet of late WITHOUT a mention of Option Symbology and the need to include expiration day in RBH and RBM position files?

As you should know by now, expiration day will be required in the RBH/RBM position files no later than July, 2009. At that time, the symbols for options themselves will become, in most instances, the symbol of the underlying security.

We are in the midst of testing new versions of BOTH RBH and RBM that will recognize expiration day in the position file if YOU want us to recognize it.

The problem is to coordinate the availability of OCC data with expiration day (sometime in June, 2008) with expiration day in your position file. In order to avoid a fixed start date for this implementation, we have introduced an INI switch called EXPDAYON. If set to N (as it is by default), the modules will IGNORE expiration day, just as your current version does.

Once you set the switch to Y (after both you and the OCC have populated the expiration day field and BEFORE July, 2009), expiration day will be part of our matching process. This allows you to put DAY into the file without concern about the OCC AND it allows you to use the OCC file with DAY without concern about your NOT having the field populated.

In discussions with the OCC, I understand that security type O (cash options) should contain an expiration day of Saturday. Types F (index, currency and single security futures) and I (options on those futures) will require an expiration day of Friday.

I suggest you stay abreast of the Symbology initiative on the OCC site at http://theocc.com/initiatives/symbology/default.jsp or by contacting your OCC representative. Remember, your symbols will need to match what the OCC has in their PL files (including expiration day) starting in July, 2009.