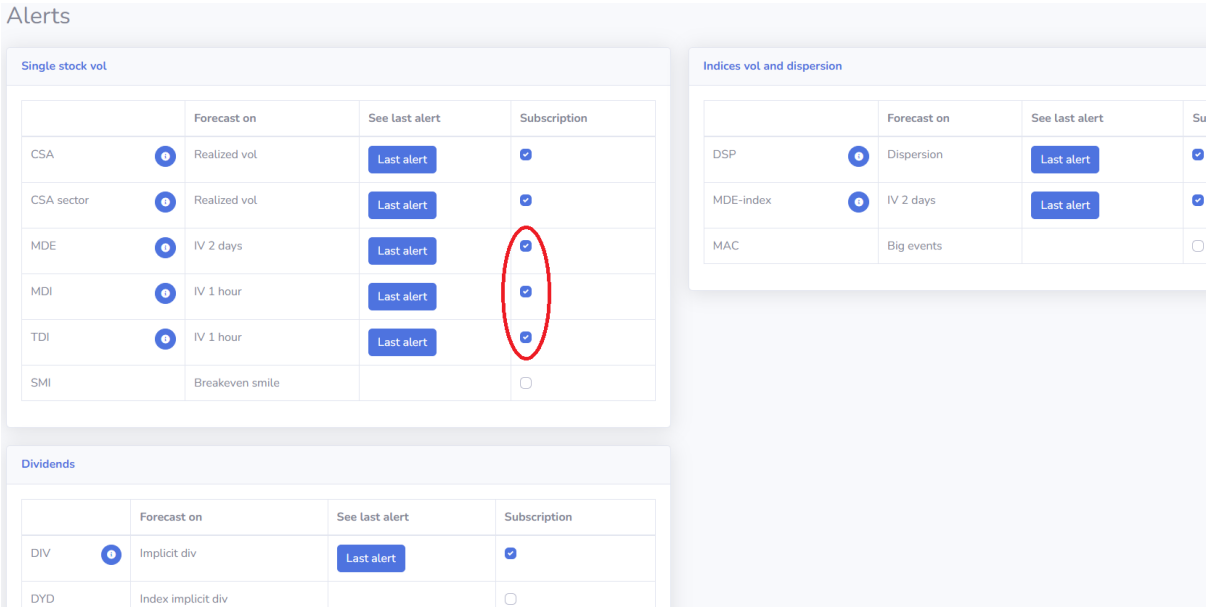
Use case :
You are looking for opportunities to buy or sell options at a good price with the intention to sell them back when the price normalizes.
Let's see how Canari can help spot good deals.

1/ Visit your canari [admin page]

2/ In the Alert section, make sure that you have subscribed to MDE, MDI and TDI alerts:



MDE and MDI spot opportunities arising from :
- the volatility spread vs another stock or index reaching abnormal levels
- a bump in the vol term structure
- a discrepancy between the vol and spot dynamics
- ...

TDI alerts stem from an accumulation of trades with a significant vega far from the fair market value.
For example, trades happening above the theoretical price on a particular strike would signal an overall undervalued vol for the maturity, hence a buy opportunity for all options of the same maturity.

MDE has a horizon of two days. MDI and TDI have a horizon of one hour.

3/ Understand the Alert

When an opportunity arises on MDE for example, you will receive an email with the following informations :

3.1/ Sum up :

MDE Alert : Sell VOL

The ATM implicit volatility of Schneider, maturity 20220617, has 84% chance to go down by 2022-03-23 08:20:00 (GMT)

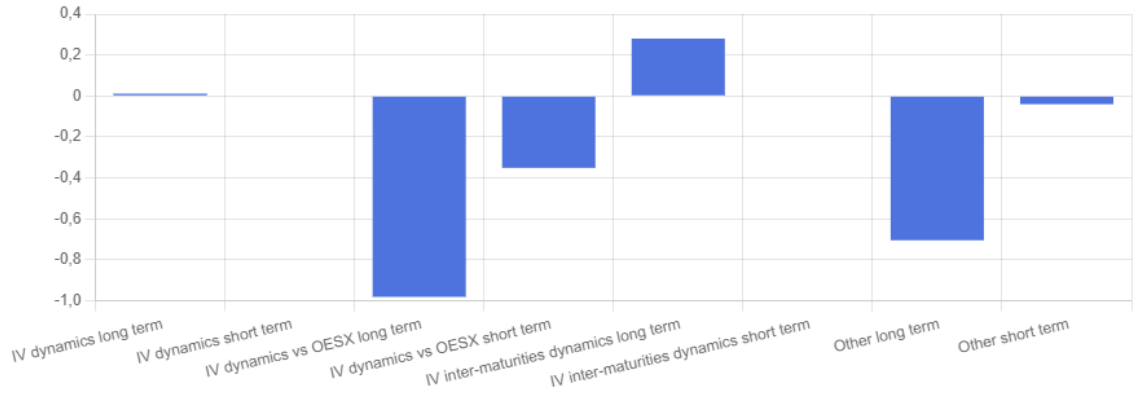
3.2/ Indicator graph

Indicator

The Y axis shows the indicator level expressed in standard deviations.
The red line marks the moment the indicator reaches the threshold and the alert is raised.

3.3/ Factors graph

Factors



Factor helps you understand which market parameter has triggered the alert. In this case, the vol spread with Eurostoxx50.

You can see how individual factors has evolved with time on the next graph :

3.4/ Market parameters
Finally, in order to appreciate how the Schneider / Eurostoxx50 vol spread has evolved, the relevant market parameters can be graphed with the "Parameters" chart below.

4/ Before you trade

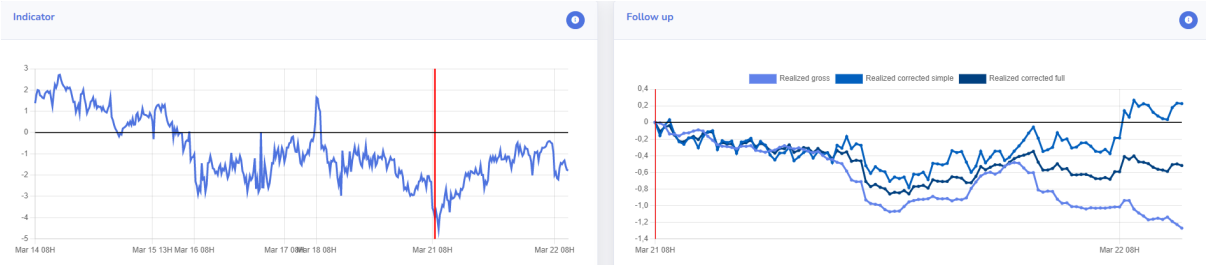
There is always the possibility that a MDE alert tells you that the vol is temporarily cheap, but you still shouldn't buy it because it is a very bad deal in a buy and hold perspective (as the CSA indicator would show). Why take the risk to be stuck with this position if you cannot unwind it in a few days?
Furthermore, if you are to buy this vol through an ATM Put but the implicit dividend is presently priced too high (as the DIV indicator would point out), you would pay too much for the Put and should go for the Call - Stock instead.

For these reasons, it is always best to check the **Canari Price** before trading, as explained in Tutorial #3.

5/ Follow up

You can come back to the alert page later and see how all these indicators and parameters have evolved until the alert horizon is reached.

Also, the Follow Up graph shows if the alert ended up pointing in the right direction.



It is the case here as the Realized_corrected_full (*) line is in negative territory.
(*) Realized_corrected_full means that the subsequent vol moves of the June maturity ATM vol of Schneider have been corrected in order to adjust for global spot and vol moves : We are looking at the Idiosyncratic volatility here.

It is also noticeable that as Schneider vol went down as expected (catching up with the Eurostoxx50), the indicator headed back up towards neutral territory (see Indicator graph right of the red line).