Eleven Eleven

Elastic Gamma

A proprietary trading strategy developed by Eleven Eleven Capital.
Email: info@oneonecap.com

Overview

What is Elastic Gamma?

Elastic Gamma is a proprietary trading strategy developed by Eleven Eleven Capital. The strategy uses Gamma and other metrics to predict price reversals and breakouts.

What is Gamma?

Options don't just bet on "up or down." They constantly change how sensitive they are to price moves. Gamma is the measure of how fast that sensitivity (called "delta") changes. High gamma means the option's behavior changes *a lot* when price moves.

Why Do Gamma "Walls" Happen?

Market makers (dealers) sell lots of options to traders. To stay safe, they hedge by buying or selling the underlying index (SPX) as it moves. At certain strike prices, they've sold so many options that their hedging needs become huge. Those strikes act like "walls": when price touches them, hedging flows can shove price back the other way.

Why Do Options Move The Stock/Index Price?

Because dealers must hedge in real time. If price drifts toward a wall, dealers might need to buy or sell millions of dollars of SPX futures to stay balanced. That flow can nudge the index (sharply) especially on days when options expire and gamma is highest.

What Does Elastic Gamma Do?

- Find the biggest walls (where hedging pressure is strongest)
- Wait until price gets close
- Fade the move with a defined-risk options spread

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Note: There are additional entry parameters and requirements aside from just purely measuring Gamma.

Bottom Line

Options can push the market because the people who sell them must constantly adjust. Elastic Gamma tries to step in right where that push is strongest, and benefits when the push runs out of steam.

Technicals

Core Mechanics

- **Gamma (Γ):** ∂Δ/∂S - the rate of change of an option's delta with respect to the underlying price.
- **Dealer Positioning:** If dealers are net short gamma at a strike, a move toward that strike increases their delta exposure in the wrong direction, forcing them to hedge aggressively (buy high, sell low). This feedback can create local support/resistance zones ("gamma walls").

Dollar Gamma Approximation

$$DollarGamma_{\kappa} = \Gamma_{\kappa} \times OI_{\kappa} \times M \times (S \times 0.01)$$

Where:

- Γ_{κ} = gamma of option k
- OI_{κ} = open interest (contracts)
- M = contract multiplier (100 for SPX)
- S = spot price of the index
- 0.01 = 1-cent move scalar (to standardize)