THE OPTION WEALTH CODE

Member's Compendium

Contents

Disclaimer

All advice is general advice and has not considered your personal circumstances. Please seek independent financial advice regarding your own situation, or if in doubt about the suitability of an investment. Past performance is not a reliable indicator of future performance.

Trading options involve risk and are not suitable for all investors. The strategies and information provided are for educational purposes only and should not be considered financial advice.

Calculating Your Future Returns: The value of any investment and the income derived from it can go down as well as up. Never invest more than you can afford to lose and keep in mind the ultimate risk is that you can lose whatever you've invested.

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Introduction to The Option Code Guide

In 2011, Sean Allison had a bold vision: to create the world's number one options education business. He envisioned empowering traders of all levels with the knowledge, tools, and strategies to achieve mastery in options trading—a realm where precision, strategy, and skill converge. Over a decade later, that vision has materialized into this guide, *The Option Code Guide*—a comprehensive resource designed to transform your trading journey.

This guide is the culmination of over 20 years of combined experience, expertise, and dedication from industry veterans Bill Billimoria and Anthony Verner. Together, they have distilled the essence of what makes options trading one of the most powerful wealth-building tools in the financial markets. Their proven strategies, honed through years of navigating market ups and downs, are now within your reach, presented in a structured, actionable format.

At its core, *The Option Code Guide* is an educational tool crafted to not only teach you how to trade options effectively but also to empower you to utilize the world's most powerful trading strategies. These methods aren't based on theory alone—they are tried, tested, and demonstrated to deliver results for traders who are willing to learn, practice, and implement them with discipline.

Through this guide, you will gain a deep understanding of the mechanics of options, the strategic thinking required to master them, and the risk management techniques to safeguard your capital. Whether you're a beginner aiming to take your first steps or an experienced trader

looking to refine your skills, this resource is designed to meet you where you are and elevate your trading education.

Sean Allison's dream of creating a world-class education platform wasn't just about delivering knowledge, it was about changing lives. Welcome to the journey. This is *The Option Code Guide*—your roadmap to mastering the most dynamic and rewarding trading tool in the financial world.

Understanding Options: In the Money, At the Money, Out of the Money, Delta, and Theta

Options trading involves understanding several key concepts to assess the value and risk of an option. Among these, the terms 'In the Money,' 'At the Money,' and 'Out of the Money' categorize options based on their relationship to the underlying asset's price. Additionally, delta and theta are important Greeks that measure sensitivity to price changes and time decay, respectively. This document provides a detailed explanation of these terms and concepts.

In the Money (ITM)

An option is considered 'In the Money' (ITM) when it has intrinsic value. For a call option, this means the underlying asset's price is higher than the strike price. For a put option, it means the underlying asset's price is lower than the strike price.

For example:
- Call Option: Strike Price = $50, Underlying Asset Price = $55 → ITM by $5.
- Put Option: Strike Price = $50, Underlying Asset Price = $45 → ITM by $5.

ITM options are generally more expensive because they already have value based on the underlying asset's price.

At the Money (ATM)

An option is 'At the Money' (ATM) when the underlying asset price is equal to or very close to the strike price. ATM options do not have intrinsic value but may still have extrinsic value due to time and implied volatility.

For example:
- Call or Put Option: Strike Price = $50, Underlying Asset Price = $50 → ATM.

ATM options are often used in strategies aiming to benefit from changes in implied volatility or significant price movements in the underlying asset.

Out of the Money (OTM)

An option is 'Out of the Money' (OTM) when it has no intrinsic value. For a call option, this means the underlying asset's price is below the strike price. For a put option, it means the underlying asset's price is above the strike price.

For example:
- Call Option: Strike Price = $50, Underlying Asset Price = $45 → OTM.
- Put Option: Strike Price = $50, Underlying Asset Price = $55 → OTM.

OTM options are generally cheaper but come with higher risk since they depend entirely on price movement or changes in volatility to become profitable.

Options Delta

Delta measures the sensitivity of an option's price to changes in the price of the underlying asset. It ranges from -1 to 1:
- Call options have positive delta (0 to 1). For example, a delta of 0.5 means the option's price will increase by $0.50 for every $1 increase in the underlying asset's price.
- Put options have negative delta (-1 to 0). For example, a delta of -0.5 means the option's price will decrease by $0.50 for every $1 increase in the underlying asset's price.

Delta also indicates the probability of an option expiring ITM. For instance, an option with a delta of 0.7 has roughly a 70% chance of being ITM at expiration.

Options Theta

Theta measures the rate of time decay in an option's price. It represents the amount by which an option's price decreases as time passes, all else being equal. Theta is usually negative for both calls and puts because options lose value as they approach expiration.

For example:
- A theta of -0.05 means the option's price will decrease by $0.05 per day.
- Options closer to expiration have higher theta, as time decay accelerates in the final weeks.

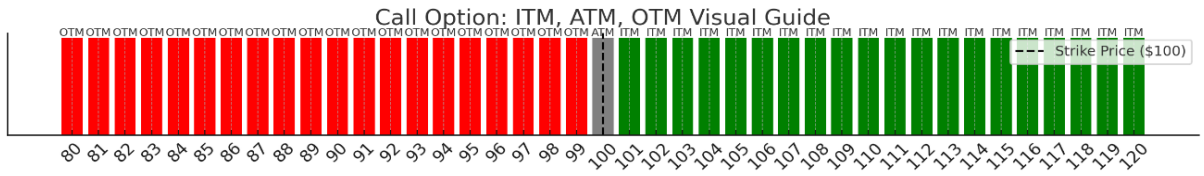
Theta decay is particularly significant for ATM options, as they have the most extrinsic value. ITM and OTM options experience less theta decay proportionally.

Call ITM ATM OTM Visualization

Call Options

- For call options:
  ITM: Stock price is above strike price
  ATM: Stock price equals strike price
  OTM: Stock price is below strike price

- **Red = OTM (Out of the Money)**
- **Grey = ATM (At the Money)**
- **Green = ITM (In the Money)**

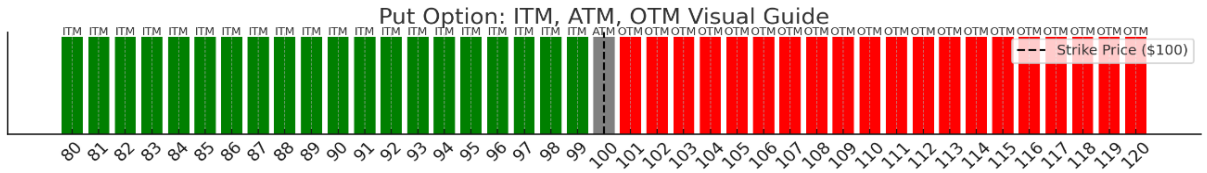


It shows how a call option behaves based on where the stock price is relative to the strike price ($100).

Put Options

- For put options:
  ITM: Stock price is below strike price
  ATM: Stock price equals strike price
  OTM: Stock price is above strike price

- **Green = ITM** (stock price **below** strike)
- **Grey = ATM** (stock price **equals** strike)
- **Red = OTM** (stock price **above** strike)



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Conclusion

Understanding the concepts of 'In the Money,' 'At the Money,' and 'Out of the Money,' along with delta and theta, is essential for successful options trading. These metrics help traders evaluate the likelihood of profitability, the sensitivity to price changes, and the impact of time on an option's value. Mastery of these concepts enables informed decision-making and more effective risk management.

Some basics tips for trading Options:

1. Trade affordable positions and avoid trading more than 5% of the value of your account on any position. Do not trade your entirety at once.
2. Select positions with good liquidity. Where price is above $10.00 and average daily volume is over 500 000.
3. Set profit and exit targets, this will help remove the emotion out of trading.
4. If you are trading with positions out into the future, ensure you know how to put on stop losses and profit takers
5. Ensure when entering the limit or premium price you add the BID and ASK and divide by 2. Saying this more pragmatic approach, especially if you are setting trades pre or post market (when the market is closed) would be the following:
    a. When buying a position goes a little closer to the ask
    b. When closing a position go a little closer to the bid
6. Avoid over trading, be clinical and pragmatic with trading; and remember only trade what fits your risk profile.
7. Don’t ever look back and feel you have missed out; opportunities in trading are always recurring.

8. Keep trading journals; always record your trades and why you got in the position. Include as much information as you can including the strike price, entry point, delta etc. This will allow you to review and improve your trading.
9. Become responsible for your trade. You cannot blame anyone else for mistakes you make. Especially if the trade is a recommendation, learn to analyze the trade.
10. Use your virtual/paper account to practice, learn your platform.
11. Ensure you have a good charting platform to do your technical analysis.
12. Look at fundamentals of the company including earnings etc....
13. Never rush into a trade; proper prior planning prevents poor performance. Stick to the rules.
14. Ensure you have identified the entry point for every trade and its exit points for profit and loss. You need to have a plan and follow it.
15. You don't need to know everything about options, understand the fundamentals and continue to develop yourself. It's like driving, learn how to drive and then with experience become a better driver, same applies with trading.
16. Avoid over analyzing. This will clutter your mindset, always look at your rules for trading as a baseline. Remember, in the trading world in general, everyone interprets the data in their unique way and as a result they can have a different view of the market, the index, sector or stock.
17. Develop a trading plan, a rules-based system on what you trade and how you trade and follow it.
18. Read books on trading mindset "Trading in The Zone", this is the key ingredient.

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Finding Opportunities Scan Call Options

Call Option Basics

Understanding Call Options:

- Right to buy stock at a specific price (strike price).
- Profit when stock price moves above the strike price.
- Basic rules for trading call options and examples of successful trades.
- Guidance on selecting the right strike price and delta for buying call options.

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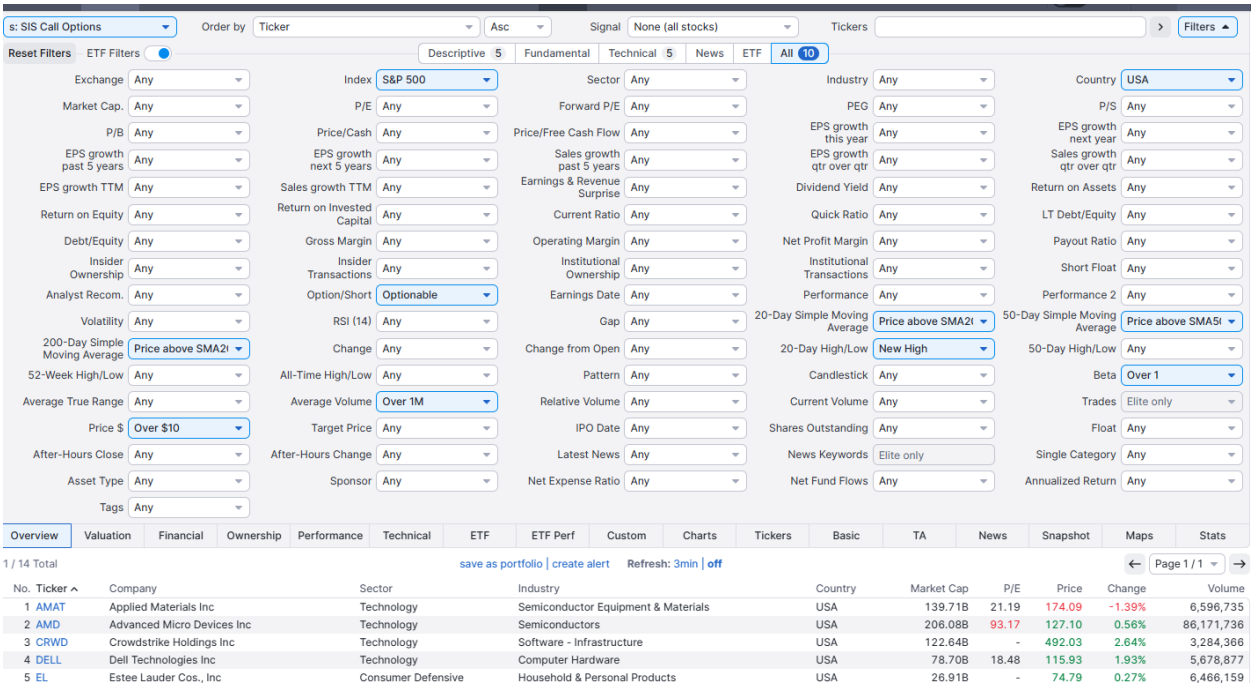
Steps to Scan for Call Options:

- Use FINVIZ for initial scans.
- Verify findings using TradingView.
- Multiple slides emphasize scanning techniques and tools to identify call option trades.



Above is an example being that of a blue line crossing the red line for call options.

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Finding Opportunities Scan Put Options

Put Option Basics

Understanding Put Options:

- Right to sell stock at a specific price.
- Profit when stock price moves below the strike price.
- Basic rules for trading put options and examples of successful trades.
- Guidance on selecting the right strike price and delta for buying put options.

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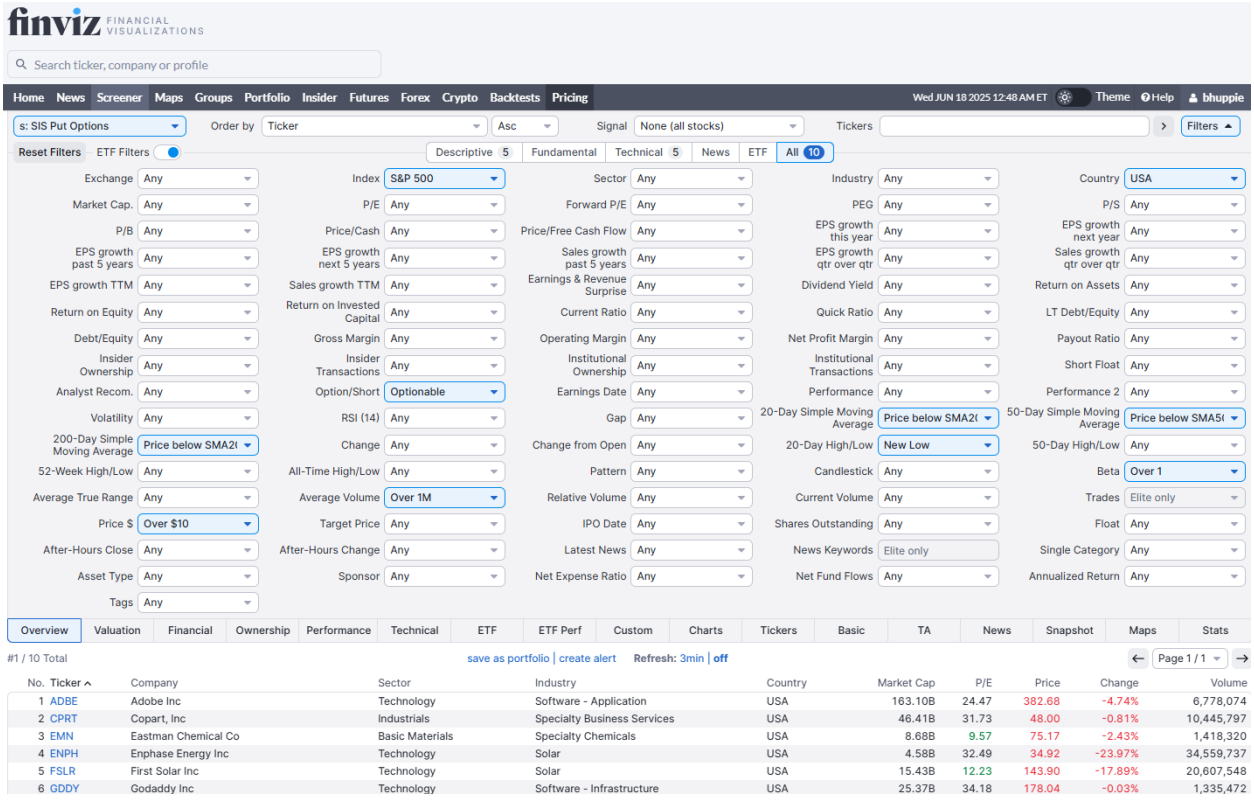
Steps to Scan for Put Options:

- Like call options, use FINVIZ for scans.
- Confirm trades using TradingView.
- Detailed instructions on how to use scanning tools to find put options.



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Options Butterflies and Their Variants

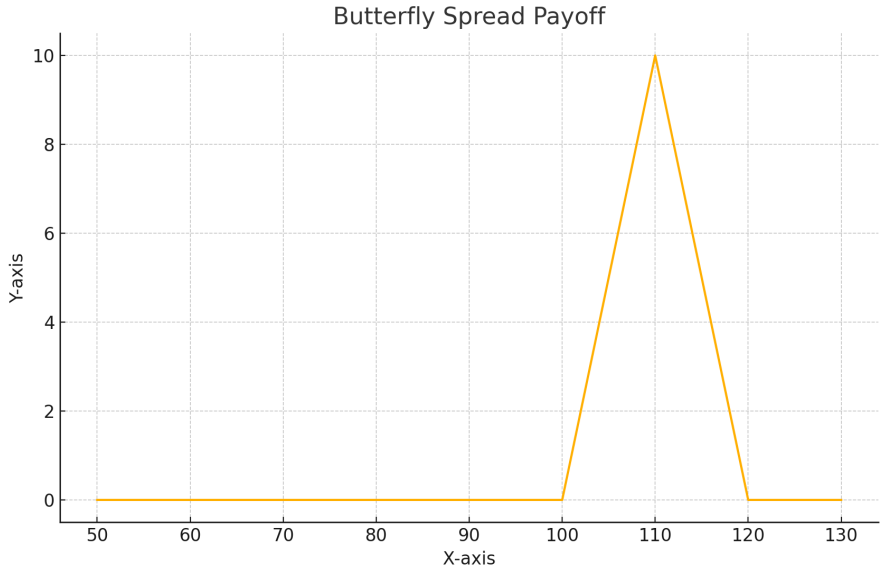
Options butterfly spreads are advanced strategies that offer defined risk and reward and are typically used in neutral or range-bound market conditions. There are several variants of the butterfly spread, each with its unique characteristics. This guide will explain the different types of butterfly spreads, provide examples of how they work, and discuss the appropriate market conditions for their use.

What is a Butterfly Spread?

A butterfly spread is an options strategy that involves combining two vertical spreads, typically buying one option, selling two options at a higher strike, and buying one more option at an even higher strike. The strategy can be used with calls, puts, or a combination of both. Butterfly spreads are designed to profit from low volatility when the price of the underlying asset stays near a specific strike price.

Butterfly Spread
- Definition: A neutral strategy that involves buying and selling call or put options with three different strike prices.
- Objective: To profit from low volatility when the price of the underlying asset remains close to the middle strike price.

Example
- Scenario: Buy one call at $100, sell two calls at $110, and buy one call at $120.



Types of Butterfly Spreads

Long Call Butterfly Spread

A long call butterfly spread is created by buying one call option at a lower strike price, selling two call options at a middle strike price, and buying one more call option at a higher strike price. The goal is for the underlying asset to stay near the middle strike price at expiration, maximizing profit.

Example of Long Call Butterfly

Suppose a stock is trading at $100. A trader buys a $95 call for $7, sells two $100 calls for $3 each, and buys a $105 call for $1. The total cost of the trade (net debit) is $2. If the stock is at $100 at expiration, the trader can make a maximum profit of $3 ($5 width of the strikes minus $2 cost).

Long Put Butterfly Spread

A long-put butterfly spread is like a long call butterfly but uses put options. The trader buys one put at a higher strike, sells two puts at a middle strike, and buys one more put at a lower strike. The strategy profits if the stock remains near the middle strike at expiration.

Example of Long Put Butterfly

Suppose a stock is trading at $120. A trader buys a $125 put for $6, sells two $120 puts for $4 each, and buys a $115 put for $2. The net debit is $0. If the stock is $120 at expiration, the trader can make a maximum profit of $5.

Iron Butterfly Spread

An iron butterfly is a combination of a call and put spread. The trader sells a call and a put at the same strike price (the middle strike), buys a lower strike put, and buys a higher strike call. This strategy profits when the stock price remains near the middle strike at expiration.

Example of Iron Butterfly

Suppose stock is trading at $50. A trader sells a $50 call for $3, sells a $50 put for $3, buys a $45 put for $1, and buys a $55 call for $1. The net credit is $4. If the stock stays at $50, the trader keeps the entire credit as profit.

Advanced Butterfly Variants

Broken Wing Butterfly

A broken wing butterfly is a modification of the standard butterfly where the wings (outer strikes) are not equidistant from the middle strike price. This allows for an unbalanced risk-reward profile, with higher potential profit on the one side. Traders use broken wing butterflies when they expect a directional move but want to limit risk.

Iron Condor

An iron condor is like an iron butterfly but with wider wings. In this strategy, the trader sells a call and a put at two different strike prices and buys protective calls and puts further away from those strikes. Iron condors provide more flexibility in terms of price movement, as they allow for a wider range of profit, but with lower profit potential than a standard butterfly.

Market Conditions for Butterfly Spreads

Butterfly spreads are most effective in low volatility environments when the stock price is expected to stay within a narrow range. These strategies work best when the trader has a neutral outlook on the underlying asset, as they benefit from minimal price movement. However, certain variants, such as the broken wing butterfly, can be used in trending markets if there is an expectation of limited downside or upside risk.

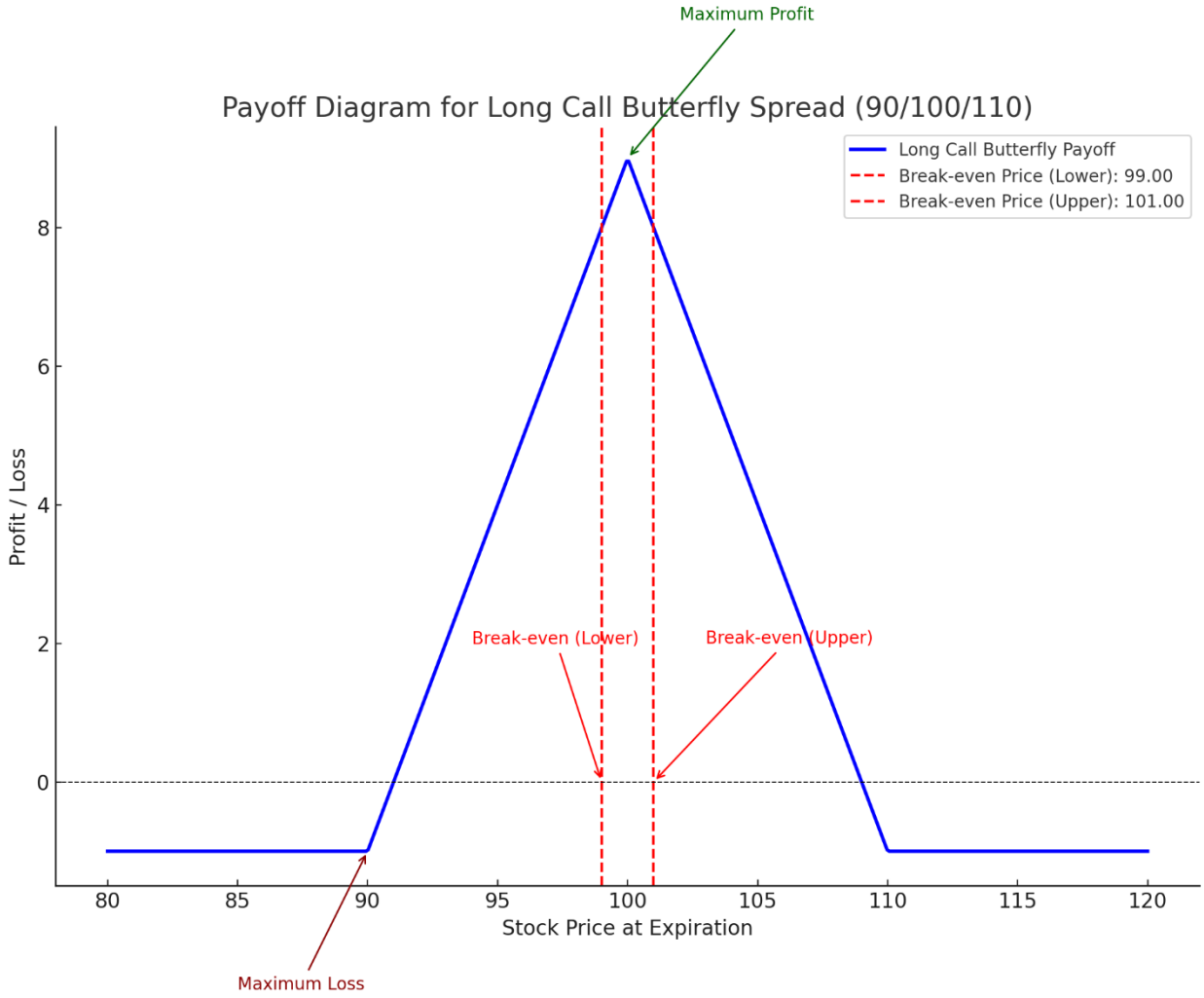
When to Use a Long Call or Put Butterfly

Use long calls or put butterflies when the underlying asset is expected to stay near the middle strike price and volatility is low. These strategies are often employed when traders want to define their risk and reward while taking advantage of time decay.

When to Use an Iron Butterfly

Iron butterflies are ideal for neutral market conditions with low expected volatility. Traders often use iron butterflies to capture premium from selling options, as the strategy benefits from time decay when the stock price stays near the middle strike.

Long Call Butterfly with example and payoff diagram



Here is the payoff diagram for a Long Call Butterfly Spread with the following parameters:

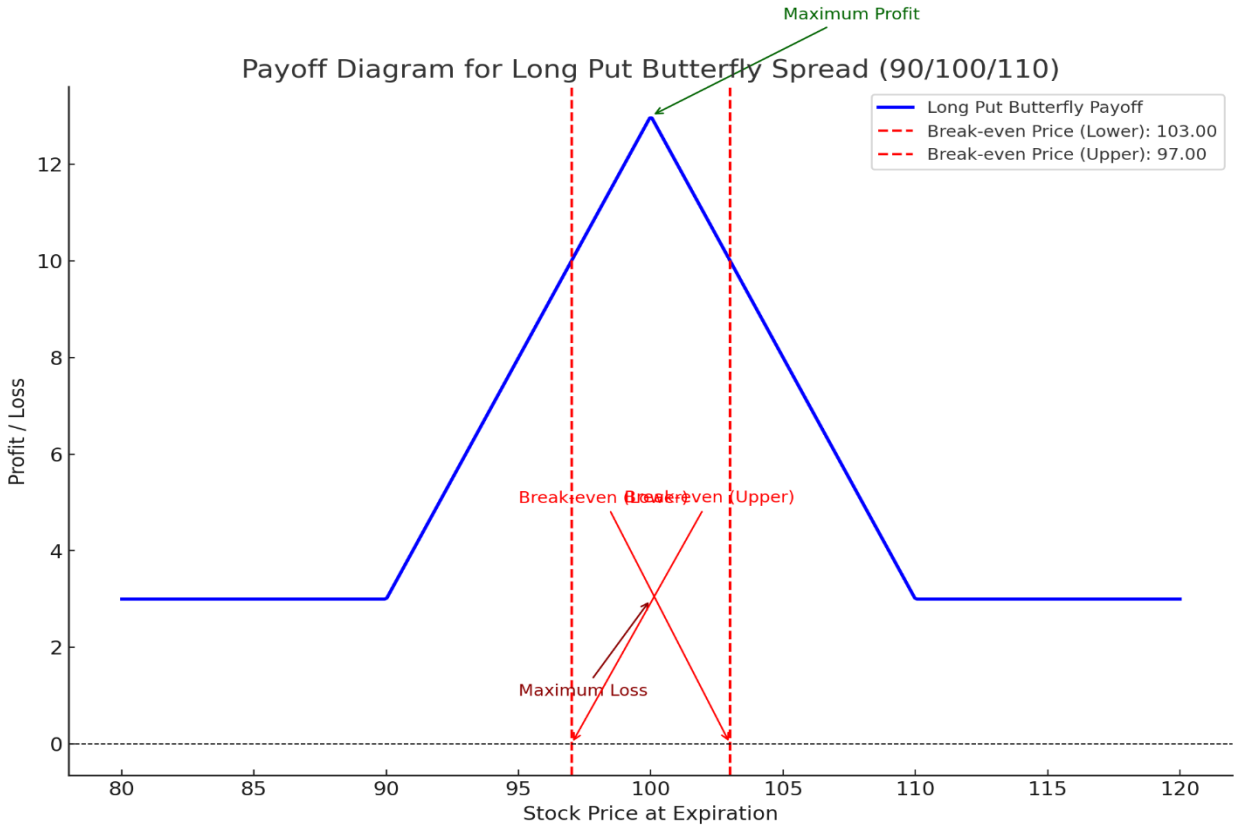
- Lower Strike Price (Long Call): $90, Premium = $6.
- Middle Strike Price (Short Calls): $100, Premium = $4 each.
- Upper Strike Price (Long Call): $110, Premium = $3.

Key Features:

1. Break-even Prices:
    - Lower Break-even: $100 - Net Premium Paid.
    - Upper Break-even: $100 + Net Premium Paid.
2. Maximum Loss: Limited to the Net Premium Paid when the stock price is outside the break-even points.
3. Maximum Profit: Achieved at the middle strike price ($100) and equals the difference between the strikes minus the net premium paid.

This strategy is ideal for low-volatile scenarios where the stock price is expected to remain near the middle strike price.

Long Put Butterfly with example and payoff diagram



Here is the payoff diagram for a Long-Put Butterfly Spread with the following parameters:

- Lower Strike Price (Long Put): $90, Premium = $3.
- Middle Strike Price (Short Puts): $100, Premium = $5 each.

- Upper Strike Price (Long Put): $110, Premium = $4.

Key Features:

1. Break-even Prices:
    - Lower Break-even: $100 - Net Premium Paid.
    - Upper Break-even: $100 + Net Premium Paid.
2. Maximum Loss: Limited to the Net Premium Paid, occurring when the stock price is outside the break-even points.
3. Maximum Profit: Achieved at the middle strike price ($100) and equals the difference between the strikes minus the net premium paid.

This strategy is effective in low-volatile scenarios where the stock price is expected to stay near the middle strike price.

Understanding Butterfly Risk

Butterfly spread strategies (like the long call or long put butterfly) are popular for their limited risk and limited reward structure. However, there are still risks involved:

Time Decay Risk (Theta Risk)

Butterflies profit near expiration if the underlying stays near the middle strike. If that doesn't happen in time, the trade may expire worthless.

If price doesn't move to the ideal spot near expiry, the position decays in value.

Directional Risk (Underlying Price Movement)

Butterfly spreads work best in low-volatility, range-bound markets. If the stock moves too far away from the center strike, the position will lose money.

Large movements in either direction can lead to max loss.

Volatility Risk (Vega Risk)

Changes in implied volatility can impact pricing, especially early in the trade.

- If volatility increases → spreads widen → potential for early losses
- If volatility drops too fast → limited gains

Liquidity & Execution Risk

Butterflies involve 3 different strike prices, so poor fills or wide bid-ask spreads can reduce profits or increase losses.

Assignment Risk (for American-style options)

If short options are exercised early (e.g., just before dividends), you may face unexpected early assignment risk.

Summary Table

Risk Type	Description
Time Decay	Lose if stock doesn't reach target strike by expiry
Price Movement	Big moves up/down hurt profitability
Volatility	Changes in IV affect pricing and outcomes
Execution	Multi-leg order = higher chance of slippage
Assignment	Early assignment can break structure (mainly in American-style options)

CODING NON-DIRECTIONAL BUTTERFLY

What is a Butterfly Spread?

A Butterfly Spread is an advanced options trading strategy that combines bull and bear spreads with a fixed risk and limited profit. It is used when a trader expects little movement in the price of an asset.

Structure of a Butterfly Spread

Involvements: - Buying one option at a lower strike price- Selling two options at a middle strike price- Buying one option at a higher strike price. This can be structured with calls or puts.

What is a Directional Butterfly Spread?

A Directional Butterfly Spread is used when a trader expects the price of an asset to move toward a specific target level by expiration. The strategy profits from directional movements while controlling risk.

Example

Stock XYZ at $100: - Buy 1 call at $95 for $7- Sell 2 calls at $100 for $4 each- Buy 1 call at $105 for $2Total cost: $7 - (2*$4) + $2 = $1 or $100 for 100 shares.

Breakeven

Breakeven Points: - Lower Breakeven: Lower strike + Net Debit (e.g., $95 + $1 = $96)- Upper Breakeven: Higher strike - Net Debit (e.g., $105 - $1 = $104)

Profit Potential

Max Profit: Achieved if the stock price reaches the middle strike at expiration. Profit = Difference between middle and lower strike - net cost. Example: ($100 - $95) - $1 = $4 or $400 for 100 shares.

Risk and Loss

Max Loss: Limited to the net debit paid for the strategy. In this example, the maximum risk is $1 per share or $100 for 100 shares.

When to use?

Best used when: - The trader expects little movement in the underlying asset. - Ideal for range-bound markets. - Low volatility environment where price will stay near a specific target.

Conclusion

The Directional Butterfly Spread is a versatile strategy for traders with a defined price target and limited risk tolerance. It offers high reward potential if the target price is reached while keeping losses minimal.

CODING DIRECTIONAL BUTTERFLY

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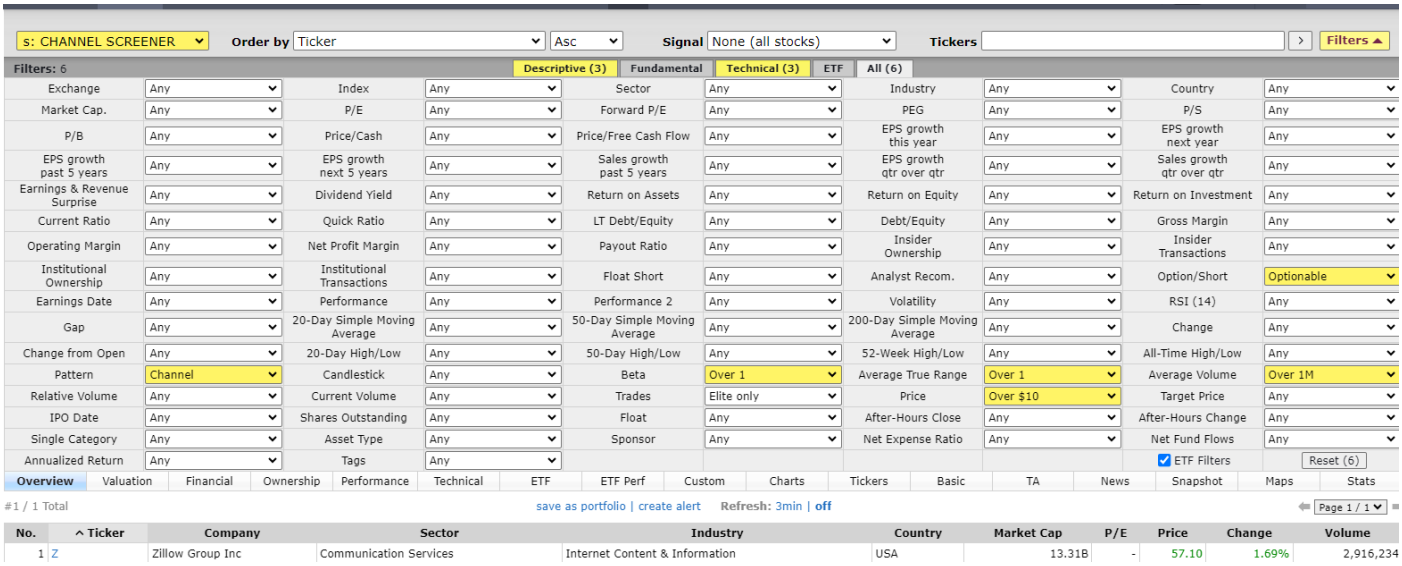
Butterfly Screeners.

Please note that it can be difficult to have an exact screener for butterfly trade ideas, due to price action. Regardless of the screener please ensure you evaluate the stock and its current price action.

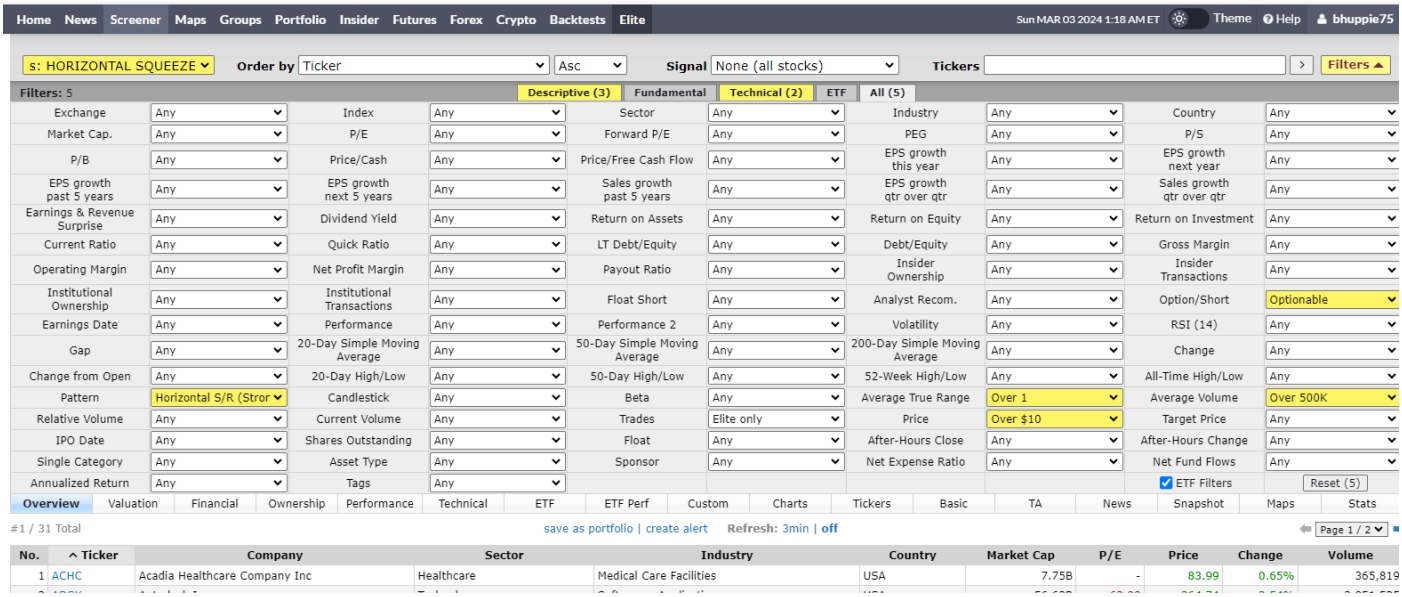
Channel Screener:

https://finviz.com/screener.ashx?v=111&f=sh_avgvol_o1000,sh_opt_option,sh_price_o10,ta_averagetruerange_o1,ta_beta_o1,ta_pattern_channel&ft=4



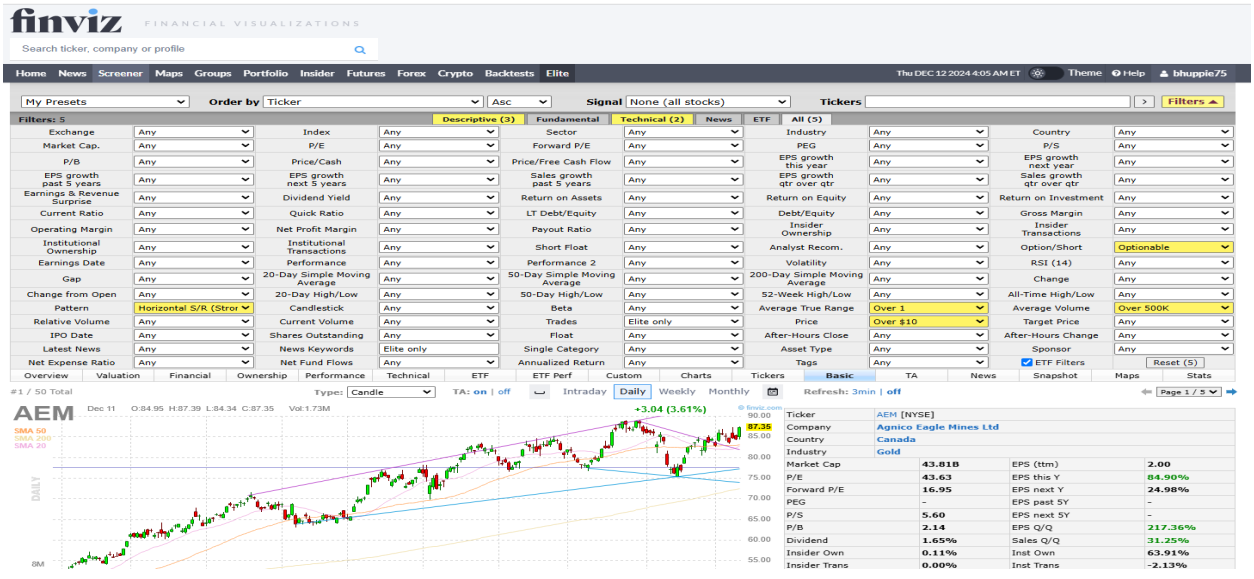
Horizontal Squeeze:

https://finviz.com/screener.ashx?v=111&f=sh_avgvol_o500,sh_opt_option,sh_price_o10,ta_averagetruerange_o1,ta_pattern_horizontal2&ft=4



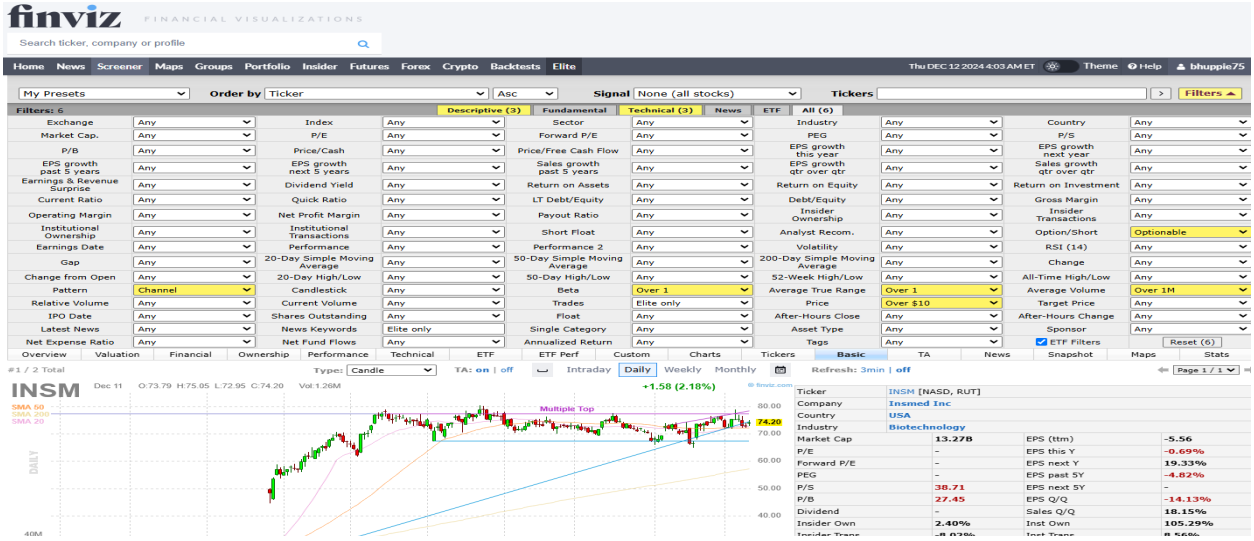
Rangebound Butterfly Screener:

https://finviz.com/screener.ashx?v=311&f=sh_avgvol_o500,sh_opt_option,sh_price_o10,ta_averagetruerange_o1,ta_pattern_horizontal2&ft=4



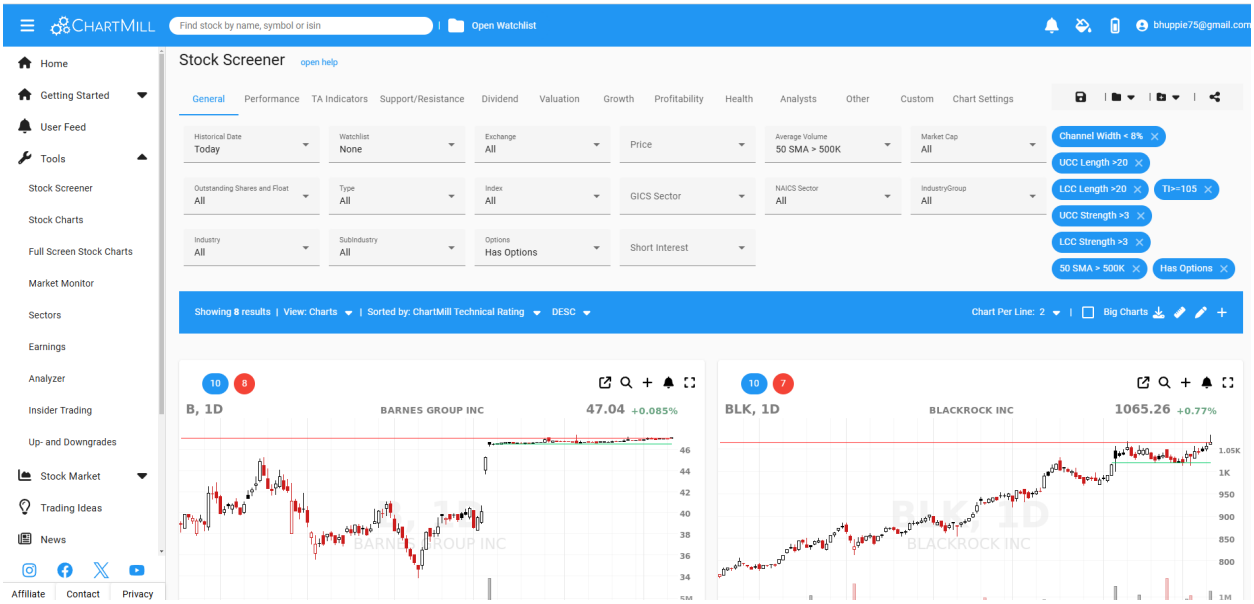
Rangebound Directional Screener 1:

https://finviz.com/screener.ashx?v=311&f=sh_avgvol_o1000,sh_opt_option,sh_price_o10,ta_averagetruerange_o1,ta_beta_o1,ta_pattern_channel&ft=4



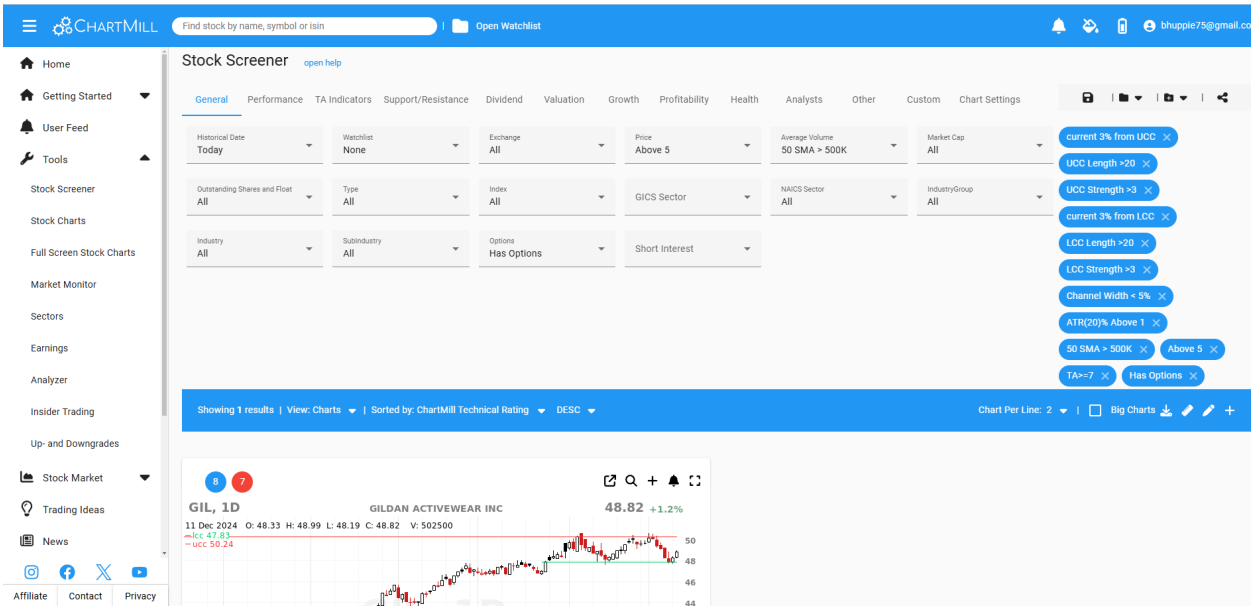
Chartmill; Channel Squeeze 1:

https://www.chartmill.com/stock/stock-screener?sid=66&f=ucc_wh_8,uccl_20,lccl_20,sl_ti_105_X,uccs_3,lccs_3,v1_50b500&v=3&type=CANDLES&o1=2&timeframe=DAILY&months=0&width=720&ia3=on&cl=F&nw=on



Chartmill Channel Squeeze 2:

https://www.chartmill.com/stock/stock-screener?f=ucc_3,uccl_20,uccs_3,lcc_3,lccl_20,lccs_3,ucc_wh_5,atrpct_a_1,v1_50b500,p_pg5,sl_ta_7_X,m_opts&v=3&o3=2&months=0&width=720



Chartmill Channel Squeeze 3:

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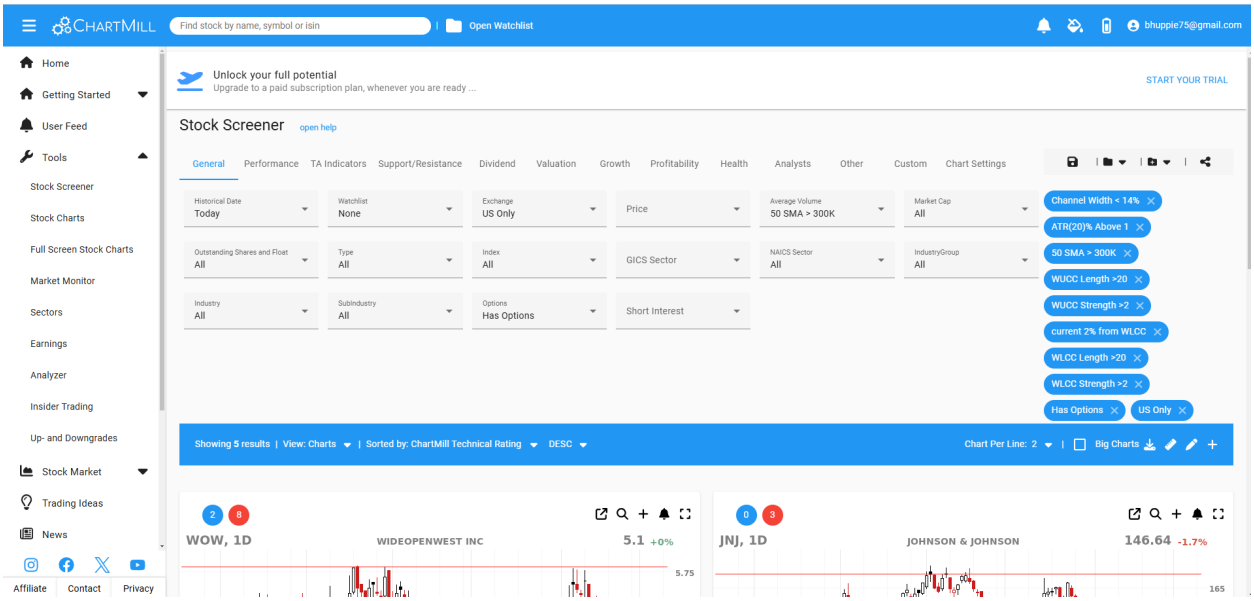


Conclusion

Butterfly spreads and their variants offer traders defined risk and reward, making them suitable for a variety of market conditions. By understanding the differences between long call, long put, iron, and broken wing butterflies, traders can choose the appropriate strategy for their market outlook. Whether the goal is to capitalize on low volatility or to limit risk while profiting from directional moves, butterfly spreads are versatile tools in the options trader's arsenal.

Options Iron Condors and Their Variants

Iron condors are advanced options strategies that involve selling both a call and a put spread. These strategies are primarily used in neutral or range-bound markets to profit from minimal price movement and time decay. In this guide, we will explain iron condors, their variants, provide examples, and discuss the appropriate market conditions for their use.

What is an Iron Condor?

An iron condor is a non-directional options strategy that combines both a bull put spread, and a bear call spread. The strategy involves selling a put option and buying a lower strike put, while

simultaneously selling a call option and buying a higher strike call. This creates a range within which the trader profits if the underlying asset stays between the short strikes.

Iron Condor Option Strategy

The Iron Condor is a popular options trading strategy that involves combining a bull put spread and a bear call spread. This strategy is designed to generate income with limited risk in low-volatility markets.

Key Components

1. Sell a lower strike put (e.g., $95) – Receives a premium.
2. Buy an even lower strike put (e.g., $90) – Pays a premium.
3. Sell a higher strike call (e.g., $105) – Receives a premium.
4. Buy an even higher strike call (e.g., $110) – Pays a premium.

Net Premium

The net premium received is the sum of the premiums collected from the sold options minus the premiums paid for the bought options. This represents the maximum profit potential.

Break-even Points

1. Lower Break-even: Higher strike price of the put (e.g., $95) minus the net premium received.
2. Upper Break-even: Lower strike price of the call (e.g., $105) plus the net premium received.

Payoff Characteristics

1. Maximum Profit: Limited to the net premium received, achieved when the stock price remains between the two short strikes (e.g., $95 and $105).
2. Maximum Loss: Limited to the width of either spread minus the net premium received, occurring if the stock price moves below the lower strike put (e.g., $90) or above the higher strike call (e.g., $110).

When to Use

The Iron Condor strategy is suitable for low-volatility scenarios where the trader anticipates that the stock price will remain within a certain range until expiration.

Advantages

1. Generates income from the premiums received.
2. Limited risk and defined reward.
3. Profits in low-volatility markets.

Disadvantages

1. Requires the stock price to remain within a specific range to maximize profit.
2. Risk of loss if the stock price moves significantly outside the range.

Conclusion

The Iron Condor is a well-balanced strategy for traders seeking consistent income in low-volatile markets. With its defined risk and reward, it offers a reliable way to capitalize on range-bound price movements.

Payoff Diagram Iron Condor

Here is the payoff diagram for an Iron Condor Option Strategy with the following parameters:

- Put Options:
    - Long Put: Strike price = $90, Premium paid = $2.
    - Short Put: Strike price = $95, Premium received = $4.
- Call Options:
    - Short Call: Strike price = $105, Premium received = $4.
    - Long Call: Strike price = $110, Premium paid = $2.

Key Features:

1. Break-even Prices:
    - Lower Break-even: $95 - Net Premium Received.
    - Upper Break-even: $105 + Net Premium Received.
2. Maximum Profit: Achieved between $95 and $105, equal to the net premium received ($4).
3. Maximum Loss: Occurs if the stock price falls below $90 or rises above $110, limited to the width of either spread minus the net premium received.

This strategy is ideal for low-volatile scenarios where the stock price is expected to remain between the short strike prices.

Inverse Iron Condor Option Strategy

The Inverse Iron Condor is an advanced options strategy designed to capitalize on significant price movements in either direction. Unlike the standard Iron Condor, this strategy benefits from high volatility and large stock price swings.

Key Components

1. Sell a lower strike put (e.g., $90) – Receives a premium.
2. Buy a higher strike put (e.g., $95) – Pays a premium.
3. Buy a lower strike call (e.g., $105) – Pays a premium.
4. Sell a higher strike call (e.g., $110) – Receives a premium.

Net Premium

The net premium is the sum of the premiums received from the sold options minus the premiums paid for the bought options. This determines the cost or credit for setting up the strategy.

Break-even Points

1. Lower Break-even: Higher strike price of the put (e.g., $95) minus the net premium paid.
2. Upper Break-even: Lower strike price of the call (e.g., $105) plus the net premium paid.

Payoff Characteristics

1. Maximum Loss: Limited to the net premium paid, occurring when the stock price stays between the short strikes ($95 and $105 in this example).
2. Maximum Profit: Occurs if the stock price moves significantly below the lower strike put (e.g., $90) or above the higher strike call (e.g., $110). The profit increases as the price moves further outside the range.

When to Use

The Inverse Iron Condor strategy is suitable for high-volatility scenarios where the trader anticipates significant stock price movements but is uncertain about the direction.

Advantages

1. Profits from significant price movements in either direction.
2. Limited risk – losses are capped at the net premium paid.

Disadvantages

1. Requires a substantial price movement to generate profit.
2. More complex to set up compared to simpler options strategies.

Understanding Iron Condor Risk

Iron Condor trading involves selling an OTM call spread and an OTM put spread simultaneously. It's a popular neutral strategy, but it carries several key risks:

Directional Risk

- If the underlying moves too far up or down, you risk hitting the short strikes and incurring maximum loss.
- The strategy is only profitable if the stock stays within a specific range.

Large moves = losses on one side of the condor.

Volatility Risk

- An increase in implied volatility after opening the trade can inflate option prices, causing paper losses.
- Condors perform best in stable, low-volatile environments.

Time Decay Risk (Theta Benefit)

- Condors benefit from time decay, but only if price stays range bound.
- If the market makes a sudden move late in the trade, the small window to recover makes risk higher.

Execution & Liquidity Risk

- Iron condors involve 4 legs; wide bid-ask spreads or poor fills can eat into profits or cause slippage.

Assignment Risk

- If any short leg goes ITM before expiration (especially in American-style options), you may face early assignment.

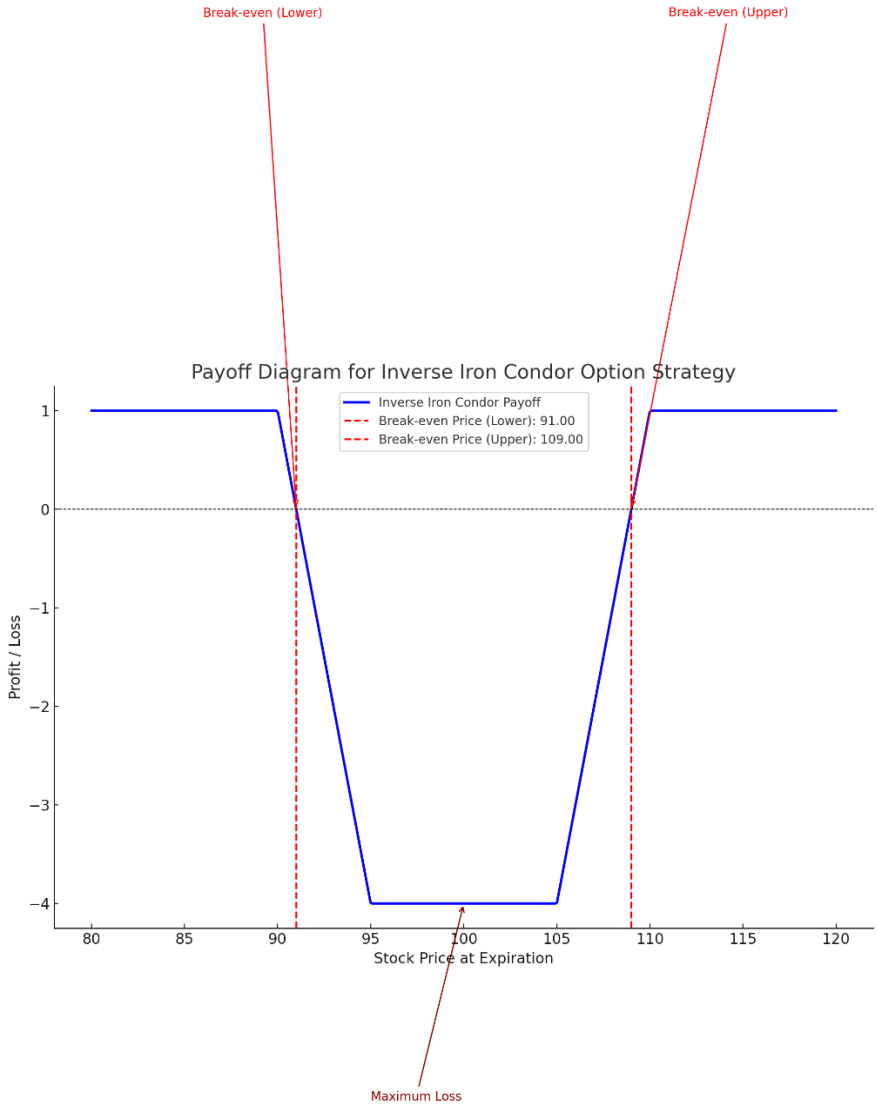
Summary Table

Risk Type	Description
Directional	Price moves too far = max loss on either side
Volatility	Rising IV can hurt trade value
Time Decay	Helps only if price stays in range
Execution	Multi-leg strategy = more slippage risk
Assignment	Early exercise risk if short options ITM

Conclusion

The Inverse Iron Condor is a versatile strategy for traders expecting high volatility. While it limits risk and provides profit opportunities in both directions, it requires a significant price movement to offset the net premium paid.

Payoff Diagram Inverse Iron Condor



Here is the payoff diagram for an Inverse Iron Condor Option Strategy with the following parameters:

- Put Options:
    - Short Put: Strike price = $90, Premium received = $2.

    - Long Put: Strike price = $95, Premium paid = $4.
- Call Options:
    - Long Call: Strike price = $105, Premium paid = $4.
    - Short Call: Strike price = $110, Premium received = $2.

Key Features:

1. Break-even Prices:
    - Lower Break-even: $95 - Net Premium Paid.
    - Upper Break-even: $105 + Net Premium Paid.
2. Maximum Loss: Limited to the Net Premium Paid, occurring if the stock price stays between the short strikes ($95 and $105).
3. Profit Zones: Occurs if the stock price moves significantly outside the short strike range, either below $90 or above $110.

This strategy is ideal for high-volatile scenarios where large price movements are anticipated.

Variants of Iron Condors

Wide Iron Condor

A wide iron condor uses options with a greater distance between the strike prices, creating a larger range of potential profit. This strategy allows for more room for the underlying assets to fluctuate, but the maximum profit is lower compared to a standard iron condor due to the lower premium received.

Example of Wide Iron Condor

Suppose a stock is trading at $100. A trader sells a $110 call and buys a $115 call, while also selling a $90 put and buying an $85 put. The distance between the strike prices provides a larger range for the stocks to move, but the premium received is lower compared to a tighter iron condor.

Narrow Iron Condor

A narrow iron condor uses options with strikes that are closer together, creating a smaller range for the underlying stock to stay within. However, the premium collected is generally higher, resulting in a greater potential profit if the stock stays within the range.

Example of Narrow Iron Condor

Suppose stock is trading at $75. A trader sells an $80 call and buys a $82.50 call, while also selling a $70 put and buying a $67.50 put. The narrow strike prices provide less room for the stock to fluctuate, but the premium received is higher, offering a greater potential profit.

Broken Wing Iron Condor

A broken wing iron condor adjusts the distance between the long and short strikes on one side of the strategy. This creates an unbalanced risk-reward profile, with a higher profit potential on the one side. The broken wing iron condor is used when a trader expects the stock to move more in one direction but wants to limit risk on the opposite side.

Example of Broken Wing Iron Condor

Suppose stock is trading at $60. A trader sells a $65 call and buys a $70 call, while also selling a $55 put and buying a $50 put. This creates a higher risk on the downside if the stock falls below $55 but allows for higher profit if the stock stays between $55 and $65.

Market Conditions for Iron Condors

Iron condors are best used in neutral market conditions where the underlying asset is expected to trade within a specific range. The strategy profits from time decay, so it is ideal in low volatility environments where large price swings are unlikely. Traders typically use iron condors when there is no strong directional bias, and they expect the stock to stay within a defined range until expiration.

When to Use a Standard Iron Condor

Standard iron condors are suitable for range-bound markets where the stock price is expected to stay within a narrow range. This strategy benefits from time decay and low volatility, allowing traders to profit from minimal price movement.

When to Use a Wide or Narrow Iron Condor

Wide iron condors are useful when there is uncertainty about how much the stock will move, but a general expectation that it will stay within a broader range. Narrow iron condors are best

used when there is confidence that the stock will stay within a tight range, as the higher premium collected offers greater profit potential.

When to Use a Broken Wing Iron Condor

Broken wing iron condors are ideal when a trader has a slight directional bias but still wants to limit risk on one side of the trade. This variant is useful when the trader expects some price movement but wants to avoid significant losses on the less probable side.

Conclusion

Iron condors and their variants offer a flexible approach to options trading, allowing traders to profit from range-bound market conditions while managing risk. By understanding when to use standard, wide, narrow, and broken wing iron condors, traders can choose the right strategy based on their market outlook and risk tolerance.

1 DAY EARNINGS STRATEGY

The Basics

In a nutshell, there is one and only one guarantee when it comes to earnings. And that is this: Implied Volatility rises steadily into earnings and then collapses right after earnings are released. All your earnings strategies regarding options must FIRST take that irrefutable law into consideration.

The Path of Implied Volatility into Earnings

10 days out

Second Key

Understanding the Implied Volatility . . .

. . . Path INTO the earnings release date.

The Path of Implied Volatility into Earnings

The key to making big money with options

What It Is:

You're placing an Iron Butterfly trade the day before earnings are announced — usually at the end of the day — and closing it within the first hour after the market opens on earnings day.

- Setup:
    - You sell an at-the-money (ATM) call and put.
    - You buy a further out-of-the-money (OTM) call and put as protection.
    - This creates a tight range-bound strategy with limited risk and limited reward.

Why It Works Around Earnings:

Earning reports create implied volatility explosions *before* the event and IV crushes *after*. You're capitalizing on that volatility crush, not the direction.

Pros:

1. IV Crush is Your Friend
    - Options are super expensive right before earnings. After earnings? Poof — prices deflate. That's where your Iron Butterfly thrives.
    - The short ATM options drop sharply in value, giving you potential quick profits.
2. Defined Risk
    - You know your max loss before placing the trade. Great for sleeping at night
3. High Reward-to-Risk Ratio
    - If the stock doesn't move much, the profit can be very high relative to risk.
4. Quick Trade
    - In and out in less than 24 hours. Minimal exposure, less emotional baggage.
5. No Need to Predict Direction
    - You're not betting up or down — you're betting on low movement.

Cons:

1. Directional Risk if Move is Large
    - If the stock moves far outside the wings, your losses can hit max loss territory fast.
      Earnings gaps happen. Often.
2. Gamma Risk at Open

- In the first few minutes after the bell, gamma and price changes can be extreme. You might not be able to close fast enough if the price explodes.

3. Limited Time to Adjust
    - There’s no room for rolling or repair. This is a hit-it-and-quit-it trade. It either works or doesn't.
4. Liquidity Issues
    - If you're trading less-liquid names, the bid/ask spreads on wings can be painful.
5. Emotional Volatility
    - Watching a stock gap $15 overnight against your $5-wide Iron Fly can be a traumatic experience. Don’t say I didn’t warn you.
6. Not Always Predictable
    - Even if IV crushes, if the move is big, the Iron Fly might still lose — especially if you're too narrow with your wings.

Best Practices:

- Choose liquid, high-IV stocks like AMD, META, TSLA, NVDA.
- Use wider wings if expecting bigger moves, even if it lowers your max gain.
- Keep your risk per trade small — especially if you're doing this often.
- Exit quickly on earnings day — don’t linger!
- Check the expected move vs. your spread width — if the expected move is $8 and your spread is $5 wide; you’re basically playing with fire.

Pro Tip:

Sometimes using a wider Iron Condor with short strikes just outside expected move can give a similar volatility edge but with more breathing room. Think of it as the Iron Fly’s more forgiving cousin.

Iron Butterfly + Pinning on Earnings: The Sweet Spot Setup

You're setting up an Iron Butterfly the day before earnings, expecting the stock to land near your short strike — ideally the at-the-money (ATM) strike — right after the earnings announcement. If that happens? Jackpot.

What Is "Pinning"?

“Pinning the strike” means the stock gravitates to and closes near a specific strike price — usually a round number or a popular ATM strike — especially on expiration day.

- This is beautifully convenient for Iron Flys, since your max profit occurs when the stock closes at your short strike.
- It's a phenomenon driven partly by:
    - Option market makers delta-hedging
    - High open interest magnetism
    - Traders closing positions en masse (in a group)

Earnings Trade Logic Using Iron Fly + Pinning

1. Day Before Earnings (Entry):
    - Choose a strike at or near the stock price with high open interest.
    - Build your Iron Fly around this:
        - Sell 1 ATM Call
        - Sell 1 ATM Put
        - Buy 1 OTM Call (upper wing)
        - Buy 1 OTM Put (lower wing)
2. Why It Works:
    - Pre-earnings: IV is jacked up. Options are fat with premium.
    - Post-earnings: IV collapses. If price doesn’t move far, short options lose value rapidly.
    - If the stock pins the strike — doesn’t gap much — the short options decay to nearly zero.
    - You pocket the max premium between the short and long legs.

Iron Fly + Pinning: Dream Outcome

Imagine this:

- A stock is trading at $100.
- You sell the 100 call and 100 put.
- You buy the 105 call and 95 put (a $5 wide Iron Fly).
- You collect $4.20 in premium.

If the stock opens around $100 and doesn't move much in the first 30–60 minutes?

- IV crush deflates your short options.
- The price is nearly $100 (aka "pins the strike").
- Your Iron Fly might be worth $0.50 or less.
- You close it out and walk away with ~$3.70 profit on $0.80 risk.

But Beware: Pinning is Hope, not a Plan

What if it *doesn't* pin?

- If the stock gaps hard up or down, it moves deep into one of your wings.
- Your Iron Fly bleeds quickly, even if the IV crush helps a bit.
- Your best-case scenario becomes breakeven or max loss, depending on width and gap.

How to Increase Pinning Probability:

1. Check Open Interest
   Look for high OI at the ATM strike — the more contracts open, the more magnetic the strike.
2. Check Historical Moves
   Does the stock *usually* overreact or underreact to earnings?
3. Check Expected Move vs Spread Width
   If the expected move is $5 and your wings are $2.50 apart; you're asking for trouble.
4. Go Wide If Needed
   Use a $10-wide fly if the stock's a mover — gives you breathing room if it moves *near* the pin but not exactly on it.

5. Monitor Price Action Closely at Open
   If price hugs the short strike early and IV crushes, get out — don't get greedy and hold too long.

Final Thoughts: Iron Fly Earnings + Pinning Strategy

Aspect	**Ideal Outcome**	**Risk**
Price Movement	Pins the short strike (ATM)	Gaps beyond the wings
Implied Volatility	Crashes post-earnings	Already low (not much to crush)
Timeframe	Close within the first 15–60 minutes	Market opens wild, can't exit
Profit Potential	High (70–90% of premium collected)	Max loss if far OTM

Sell options when they are expensive, buy options when they are cheap when volatility is high - options are super expensive! At the money option has the most time value volatility only effects the time value of an option

Conclusion

Using a 1-day Iron Butterfly strategy around earnings is a high-reward, high-risk play that hinges on the magic of implied volatility crush and the hope of pinning the strike. When executed well — entering the day before earnings and exiting within the first hour after the announcement — it can deliver quick, defined profits with minimal time exposure. However, it's not for the faint-hearted: large price gaps can push the trade into max-loss territory in seconds, and pinning is more a seductive myth than a guarantee. To succeed, one must choose liquid stocks, align strikes with expected moves and open interest, and act fast when the window opens. In short, it's a sharp, surgical trade for those who can stomach the adrenaline and think like a sniper — not a shotgunner.

STEP-BY-STEP RESEARCH PROCESS For Butterfly and Iron Condors

PART 1: FIND SUITABLE STOCKS / ETFS

Use FINVIZ Screener (https://finviz.com/screener.ashx)

For Iron Condor:

- Filter for low volatility, range-bound stocks
    - Volatility: Low (<0.05 Beta)
    - Average Volume: Over 1M (liquidity)
    - Price: $20 - $150
    - Technical: Price near 50-day or 200-day MA

For Butterfly:

- Look for stocks approaching major technical levels (support/resistance)
    - Volatility: Moderate (0.8–1.5 Beta)
    - RSI: Near 50 (neutral zone)
    - Chart patterns: Sideways / Converging Triangle

Action: Click on each stock and look at charts with technical indicators.

Technical Level Analysis

Use ChartMill (https://www.chartmill.com/)

- Enter ticker and view:
    - Support/Resistance zones
    - ATR (Average True Range) for price movement range
    - Bollinger Bands and Price Channels to define expected range

Iron Condor:

Set strikes just outside support/resistance or BB range (safe zone).

Butterfly: Set center strike at key technical level (e.g. earnings pivot, VWAP, gap fill).

OPTION CHAIN ANALYSIS & SETUP

Use Barchart.com (https://www.barchart.com/options)

- Search ticker and open the Options Chain
- Filter for:
    - 30–45 DTE (Days to Expiry) — good balance for time decay
    - Look at IV Rank and Bid-Ask Spread

IV Rank < 30 → Condor-friendly
IV Rank > 50 → Butterfly may benefit from IV crush

Setup:

- Iron Condor:
    - Sell OTM put + call spreads with enough premium
    - Target 1:3 risk/reward (e.g., receive $1 credit for $3 risk)
- Butterfly:
    - Use narrow strikes (5-point width is common)
    - Ensure cheap debit (< $1 preferred)
    - Center the short strikes around the expected move

PROBABILITY & PAYOFF ANALYSIS

Use your Trading Account

- Use “Build Strategy” to:
    - Visualize payoff diagrams
    - Analyze break-even points
    - Simulate outcomes based on volatility or underlying movement

Important:

- Iron Condor: Choose strikes with > 70% probability OTM (delta ~10-15)

- Butterfly: Check max gain occurs close to expected price

TIMING & EVENT CHECK

Check Earnings & News (Yahoo Finance)

- Look up the ticker on:
    - Yahoo Finance
- Avoid opening trades right before earnings unless it's a volatility play

Butterfly (pre-earnings): consider using Put or Call Butterfly if expecting a sharp move
Iron Condor: avoid earnings or Fed announcements

TRADE JOURNALING & RISK CONTROL

Use a Spreadsheet or Free Journaling Tools

Track:

- Ticker / Strategy / Expiry
- Entry cost, Max Profit/Loss
- Chart Screenshot
- Reason for trade (setup)
- Exit notes (what worked, what didn't)

Risk control rule: Never risk more than 1-2% of capital per trade.

SUMMARY WORKFLOW TABLE

Step	Tool / Website	Task
1	FINVIZ	Screen range-bound or trending stocks
2	ChartMill	Identify support/resistance and volatility bands
3	Barchart	Analyze option chain, IV, bid/ask spread
4	Trading Account	Simulate trade, visualize payoff, probability

Step	Tool / Website	Task
5	Yahoo	Check earnings, news, macro events
6	Spreadsheet	Track your trades, lessons learned

Options LEAPS, Synthetics, and Risk Reversals: A Comprehensive Guide

Options LEAPS, synthetics, and risk reversals are advanced strategies that offer flexibility in options trading for both long-term and short-term outlooks. In this guide, we will explain each of these strategies, provide examples, and discuss the appropriate market conditions for their use.

What are LEAPS (Long-term Equity Anticipation Securities)?

LEAPS are options contracts with expiration dates longer than one year, allowing traders to take long-term positions on a stock or index. These contracts offer the benefits of options, such as leverage and defined risk, but for a much longer time frame.

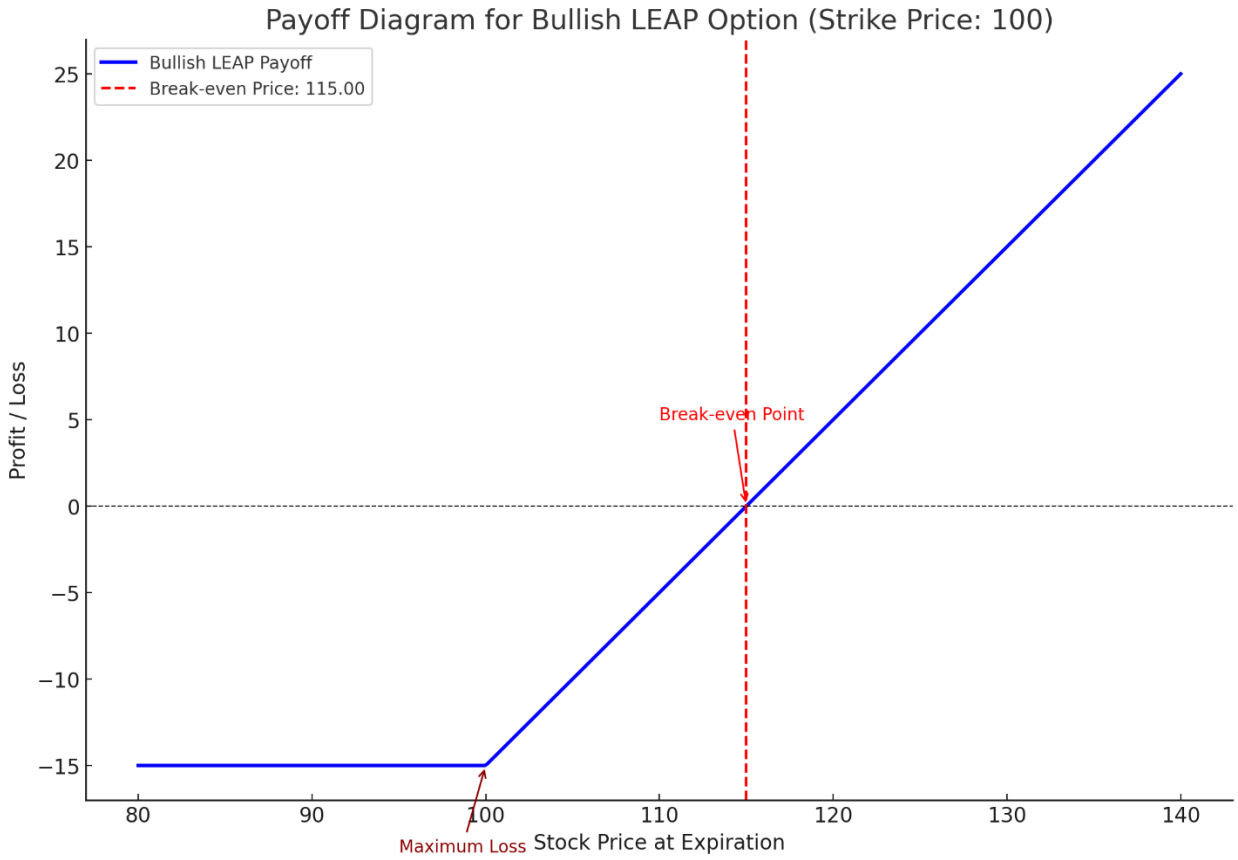
Setting Up a LEAPS Trade

1. Choose an underlying asset with a long-term bullish or bearish outlook.
2. Buy a LEAPS call option (for a bullish outlook) or LEAPS put option (for a bearish outlook) with an expiration date at least one year away.
3. Hold the position to benefit from long-term price appreciation or depreciation while limiting risk to the premium paid.

Example of a LEAPS Trade

Suppose a stock is trading at $50, and you are bullish over the next two years. You buy a LEAPS call option with a $55 strike price expiring in two years for $5. If the stock rises to $70 within that time, you can sell the LEAPS for a significant profit, while limiting your maximum loss to the $5 premium.

Bullish Leaps Payoff Diagram



Here is the payoff diagram for a Bullish LEAP Option with the following parameters:

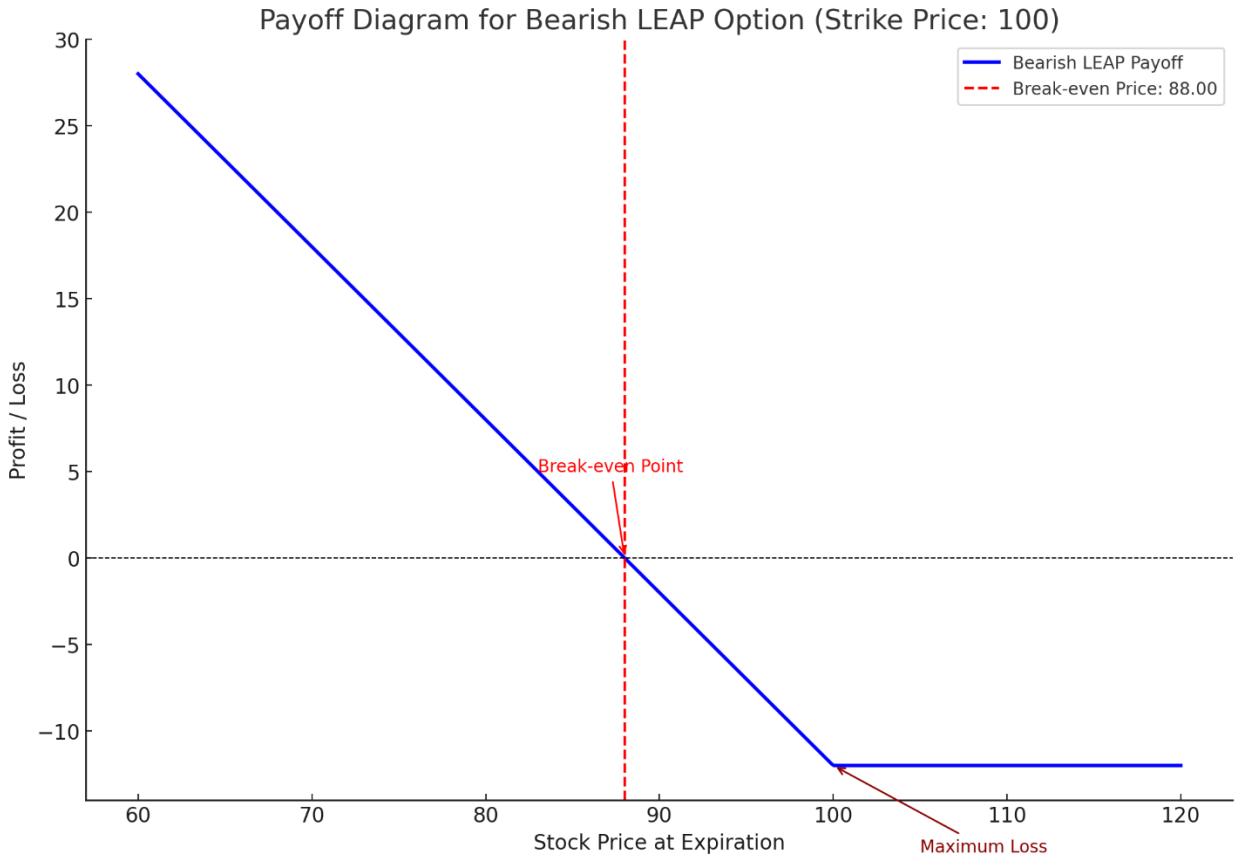
- Strike Price: $100
- Premium Paid: $15

Key Features:

1. Break-even Price: $115 (Strike Price + Premium Paid).
2. Maximum Loss: Limited to the premium paid ($15), occurring when the stock price is at or below the strike price ($100).
3. Profit Zone: Begins when the stock price exceeds the break-even price, with unlimited profit potential as the stock price rises.

LEAP options are long-term investments often used to speculate on significant price increases.

Bearish Leaps Payoff Diagram



Here is the payoff diagram for a Bearish LEAP Option with the following parameters:

- Strike Price: $100
- Premium Paid: $12

Key Features:

1. Break-even Price: $88 (Strike Price - Premium Paid).
2. Maximum Loss: Limited to the premium paid ($12), occurring when the stock price is at or above the strike price ($100).
3. Profit Zone: Begins when the stock price drops below the break-even price, with increasing profits as the stock price decreases.

This strategy is ideal for speculating on significant downward movements in the stock price over the long term

What are Synthetic Positions?

Synthetic positions replicate the payoff of an actual stock position by using options. A synthetic long or short position is created by combining call and put options. These strategies allow traders to achieve the same exposure as owning or shorting stock without holding the underlying shares.

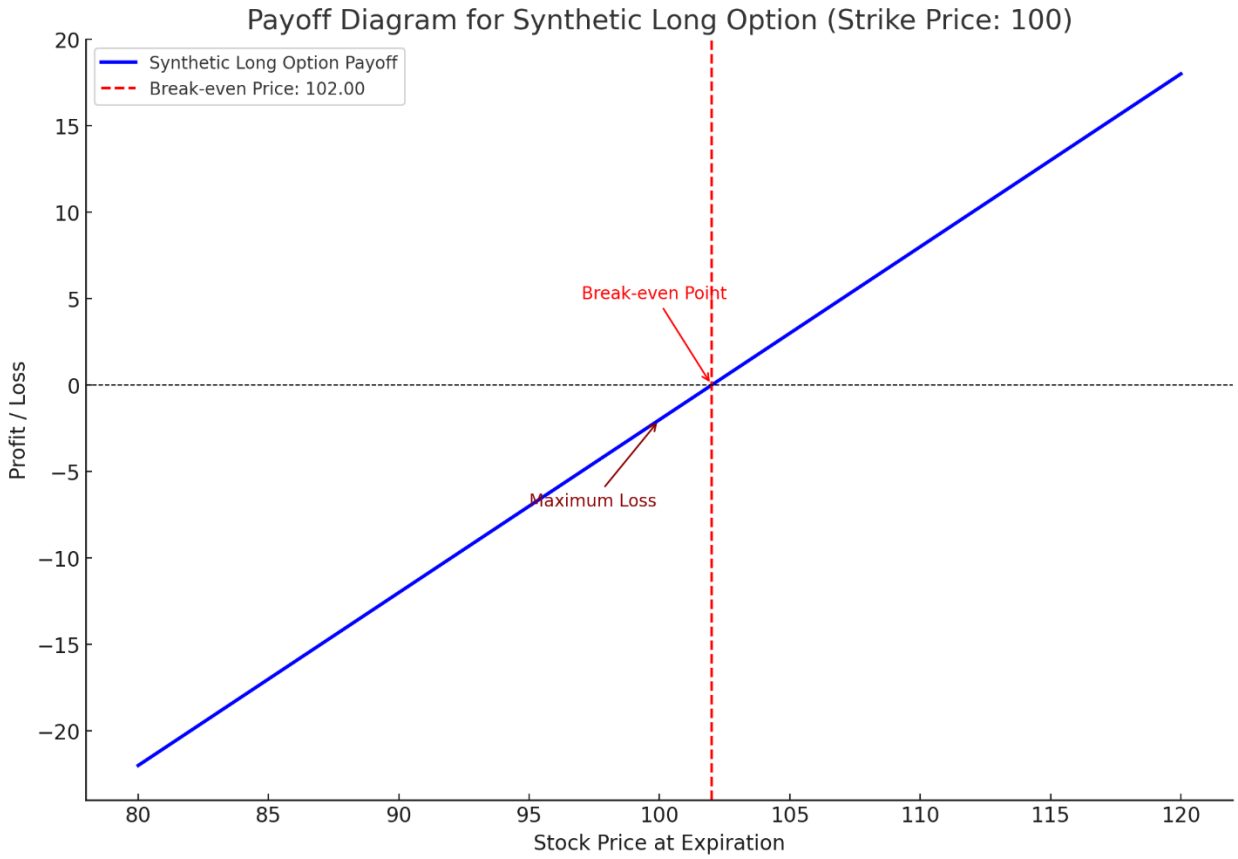
Synthetic Long and Short Positions

A synthetic long position is created by buying a call option and selling a put option at the same strike price. This strategy mimics the payoff of owning the stock. Conversely, a synthetic short position is created by selling a call option and buying a put option at the same strike price, mimicking the payoff of stock shorting.

Example of a Synthetic Long Position

Suppose a stock is trading at $100, and you want to gain bullish exposure. You buy a $100 strike call for $4 and sell a $100 strike put for $4. The net cost of the position is zero, and the payoff mimics owning 100 shares of stock. If the stock rises, the synthetic long position profits as if you held the stock.

Synthetic Long Payoff Diagram



Here is the payoff diagram for a Synthetic Long Option with the following parameters:

- Call Option (Bought): Strike price = $100, Premium paid = $10.
- Put Option (Sold): Strike price = $100, Premium received = $8.

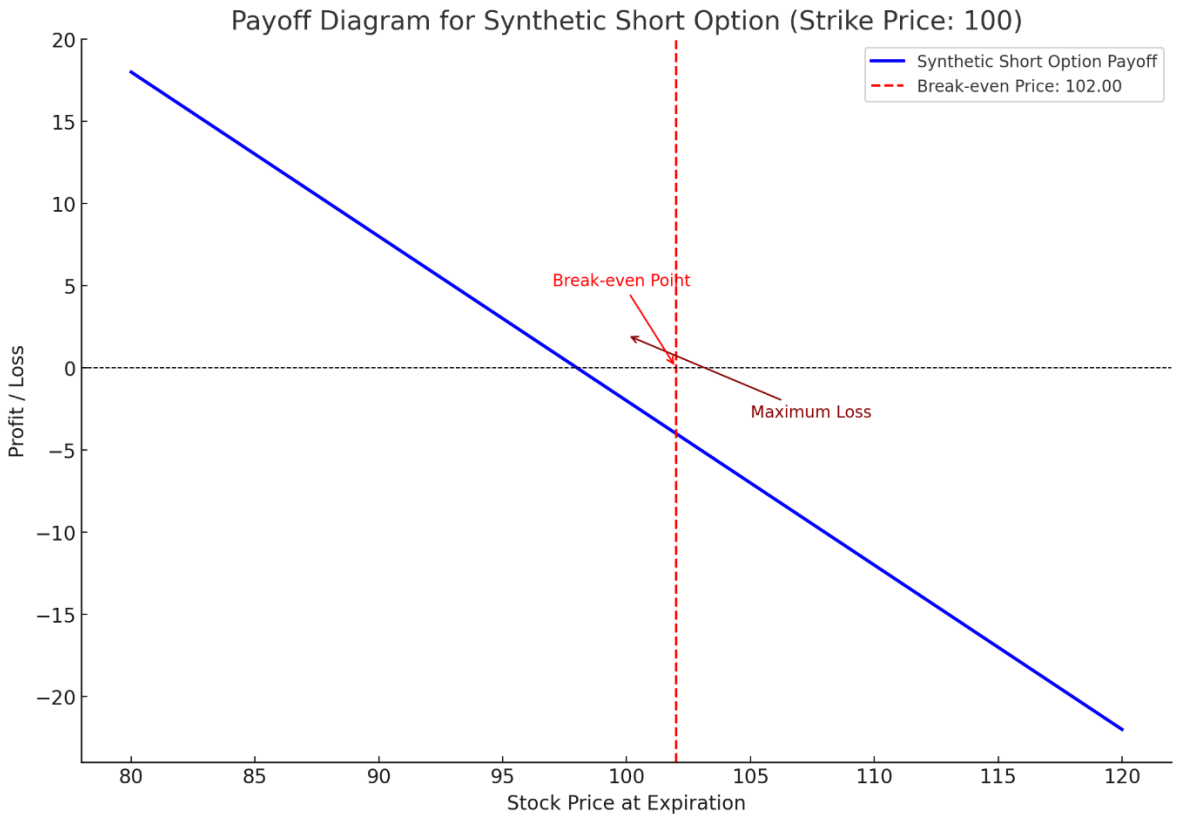
Key Features:

1. Break-even Price: $102 (Call Strike Price + Net Premium Paid).
2. Maximum Loss: Limited to the net premium paid ($2), occurring if the stock price is at or below the strike price ($100).
3. Profit Zone: Unlimited profit potential begins when the stock price exceeds the break-even price ($102).

This strategy replicates the payoff of holding the underlying asset but with limited upfront cost.

Example of a Synthetic Short Position

Suppose stock is trading at $200, and you expect a decline. You sell a $200 strike call for $7 and buy a $200 strike put for $7. The net cost of the position is zero, and the payoff mimics shortening the stock. If the stock declines, the synthetic short position profits similarly to a short stock position.



Here is the payoff diagram for a Synthetic Short Option with the following parameters:

- Put Option (Bought): Strike price = $100, Premium paid = $10.
- Call Option (Sold): Strike price = $100, Premium received = $8.

Key Features:

1. Break-even Price: $98 (Put Strike Price - Net Premium Received).
2. Maximum Loss: Limited to the net premium received ($2), occurring if the stock price is at or above the strike price ($100).
3. Profit Zone: Begins when the stock price drops below the break-even price ($98), with increasing profit as the stock price decreases.

This strategy replicates the payoff of a short position in the underlying asset.

What is Risk Reversal?

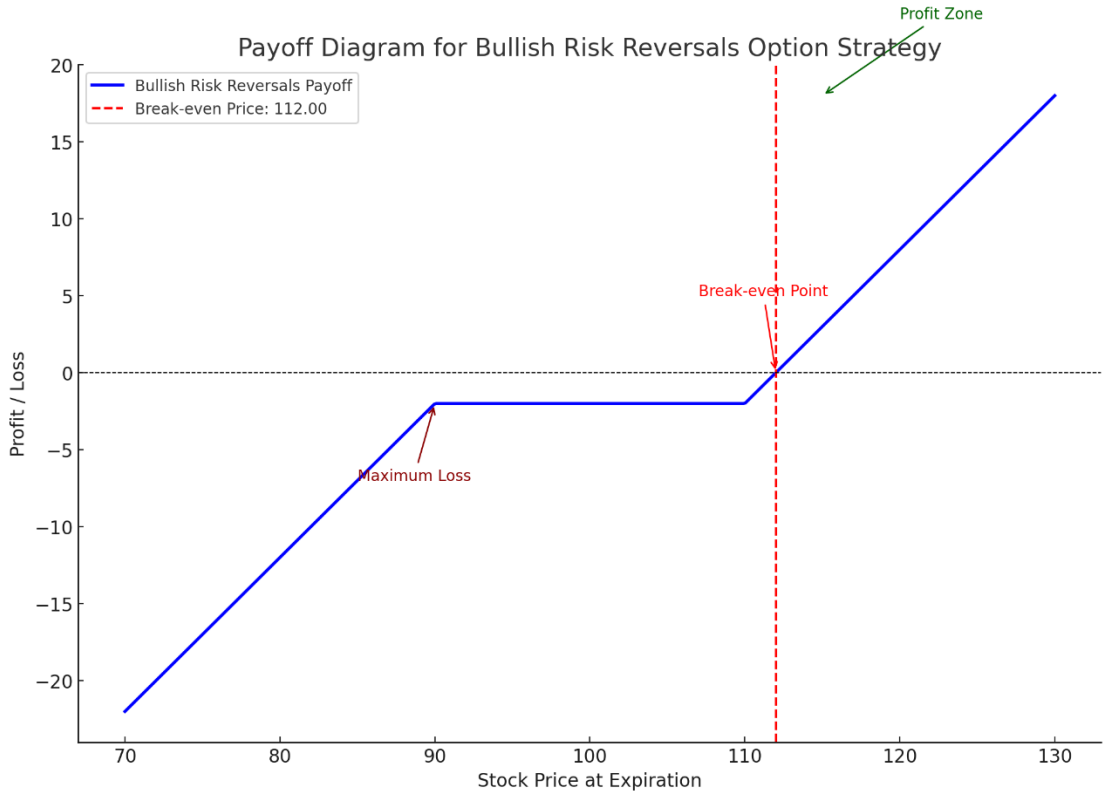
A risk reversal is an options strategy that involves buying a call option and selling a put option, or vice versa. This strategy is used to express a directional view on the underlying asset while minimizing the upfront cost. A bullish risk reversal involves selling a put and buying a call, while a bearish risk reversal involves selling a call and buying a put.

Bullish and Bearish Risk Reversals

A bullish risk reversal is often used when a trader expects the stock to rise but wants to reduce the cost of buying a call option. By selling a put, the trader generates a premium that helps offset the cost of the call option. A bearish risk reversal is used when a trader expects the stock to fall and involves selling a call and buying a put.

Example of a Bullish Risk Reversal

Suppose a stock is trading at $50, and you are bullish. You buy a $55 call for $2 and sell a $45 put for $2, creating a zero-cost position. If the stock rises above $55, you profit from the call option, while your maximum loss is limited to the downside of being assigned the stock at $45.



Here is the payoff diagram for a Bullish Risk Reversals Option Strategy with the following parameters:

- Put Option (Sold): Strike price = $90, Premium received = $3.
- Call Option (Bought): Strike price = $110, Premium paid = $5.

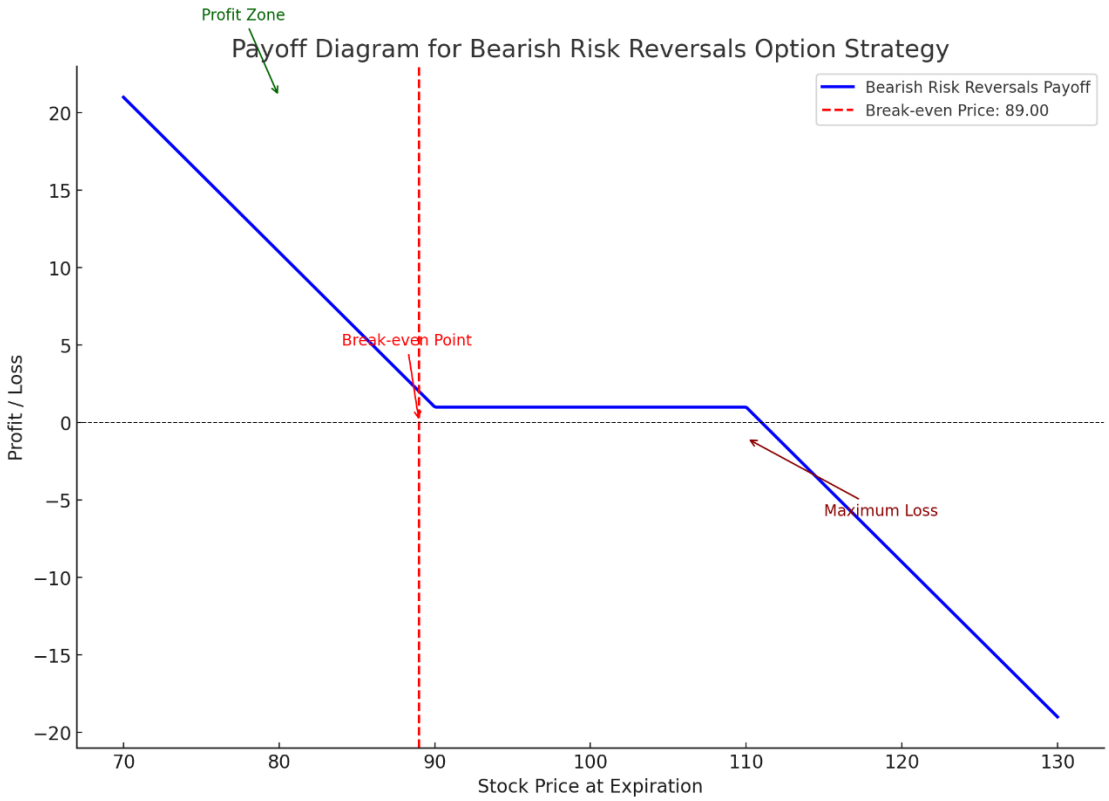
Key Features:

1. Break-even Price: $112 (Call Strike Price + Net Premium Paid).
2. Maximum Loss: Occurs if the stock price drops significantly below the put strike price ($90), with losses increasing as the price declines.
3. Profit Zone: Begins above the break-even price ($112), with unlimited profit potential as the stock price rises.

This strategy is ideal for bullish outlooks with expectations of significant upward price movement.

Example of a Bearish Risk Reversal

Suppose a stock is trading at $80, and you expect it to decline. You sell an $85 call for $3 and buy a $75 put for $3. The net cost is zero, and if the stock drops below $75, you profit from the put option.



Here is the payoff diagram for a Bearish Risk Reversals Option Strategy with the following parameters:

- Call Option (Sold): Strike price = $110, Premium received = $5.
- Put Option (Bought): Strike price = $90, Premium paid = $4.

Key Features:

1. Break-even Price: $89 (Put Strike Price - Net Premium Received).
2. Maximum Loss: Occurs if the stock price rises significantly above the call strike price ($110), with losses increasing as the price climbs.
3. Profit Zone: Begins below the break-even price ($89), with increasing profit as the stock price decreases.

This strategy is suitable for bearish market outlooks with expectations of significant downward price movement.

Market Conditions for LEAPS, Synthetics, and Risk Reversals

Each of these strategies is suitable for different market conditions:

1. LEAPS: Best used when you have a long-term bullish or bearish outlook on a stock and want to limit your risk while benefiting from potential price movement.
2. Synthetics: Useful when you want to replicate stock ownership or short exposure without holding shares. Synthetics are also effective in capital-efficient strategies.
3. Risk Reversals: Effective when you have a strong directional view and want to reduce the upfront cost of buying options. These strategies are commonly used in neutral or low volatility environments.

Conclusion

LEAPS, synthetics, and risk reversals are versatile options strategies that allow traders to express long-term and short-term views while managing risk and capital efficiently. By understanding how to use these strategies in different market conditions, traders can tailor their options approach to fit their outlook and risk tolerance.

Understanding Rolling in Options Trading: A Focus on LEAPS, Synthetics, Risk Reversals, Debit Spreads, and Calls & Puts

Introduction Rolling in options trading refers to the process of closing an existing options position and simultaneously opening a new one with different strike prices, expiration dates, or both. This technique is commonly used to manage risk, lock in profits, extend duration, or adjust strategy as market conditions evolve.

Rolling LEAPS (Long-Term Equity Anticipation Securities)

LEAPS are options with expirations longer than one year. Traders roll LEAPS to extend their investment horizon or manage exposure.

Example:

- A trader holds a LEAPS call on AAPL expiring in January 2025.
- As expiration nears, they may roll it to a January 2026 call, preserving long-term bullish exposure.

Purpose of Rolling LEAPS:

- Maintain long exposure without exercising.
- Avoid theta decay.
- Adjust strike closer to current price or further OTM/ITM depending on strategy.

Rolling Synthetic Positions

Synthetics replicate the payoff of other instruments. A common synthetic long is a long call and short put at the same strike.

Why Roll a Synthetic?

- To adjust risk exposure as the underlying moves.
- To respond to changes in volatility or time decay.

Example:

- If a synthetic long position (long call + short put) is too close to expiration and the underlying hasn't moved as expected, a trader might roll both legs out to a later date or change strikes to better reflect their revised outlook.

Rolling Risk Reversals

Risk reversals involve buying a call and selling a put (or vice versa) to create directional trades with defined risk/reward.

Reasons to Roll:

- Adjust bullish or bearish exposure without closing out the entire trade.
- Extend duration or change strike levels.

Example:

- A bullish risk reversal (long call, short put) might be rolled if the stock moves sharply higher. The trader could move both options to higher strikes to lock in gains and stay in the trade.

Rolling Debit Spreads

Debit spreads involve buying one option and selling another, typically in the same expiration, to reduce net premium paid.

Reasons to Roll:

- The trade is profitable and trader wants to capture more gains.
- The trade is losing and the trader wants to reduce loss or reposition.

Example:

- A trader long a call debit spread (buy 100 call, sell 105 call) might roll to a higher strike spread (e.g., buy 105, sell 110) as the stock approaches 105, locking in gains while staying bullish.

Rolling Calls and Puts (Single-Leg Options)

Rolling single options is the most basic form of rolling. This could mean rolling up, down, forward, or a combination thereof.

Why Roll?

- To lock in profits.
- To avoid assignments.
- To adjust delta exposure or respond to a change in outlook.

Example:

- A trader long a 50 call might roll up to a 55 call if the stock rallies, taking profit and re-positioning.

Conclusion

Rolling is a dynamic technique that allows traders to adapt their options positions in response to market movement, time decay, or strategic shifts. Whether working with LEAPS to maintain long-term exposure, adjusting synthetics or risk reversals to mirror sentiment changes, or refining debit spreads and directional calls or puts, rolling offers flexibility and control. Mastering it requires an awareness of trade structure, timing, and execution costs, but when done right, it can significantly enhance an options trader's toolbox.

Closing Multi-Leg Options Trades: Focus on Butterfly and Iron Butterfly Strategies Near Expiry

Introduction

As expiration approaches in multi-leg options strategies like the Butterfly and Iron Butterfly, traders often face a critical decision: whether to close the trade early, let it expire, or close individual legs. When one or more legs have little to no value, the temptation is to leave the position alone. However, this can introduce unexpected risks.

Understanding Butterfly and Iron Butterfly Positions

- Butterfly Spread (Call or Put): Involves buying 1 lower strike option, selling 2 at-the-money (ATM) options, and buying 1 higher strike option, all with the same expiration.
- Iron Butterfly: Combines a short straddle (short call and short put at the same strike) with a long call and a long put as protection (OTM wings).

These are defined risk and defined reward strategies, typically used to profit from low volatility when the underlying price stays near the short strike at expiry.

Closing Near Expiry: What's the Concern?

As expiration nears:

- One or more legs may have zero extrinsic value.
- The position may appear to be safe or fully profitable.

However, failing to close the trade can expose you to unintended risks, particularly early assignment and pin risk.

Reasons to Close the Trade (Even If Profitable):

1. Avoiding Assignment Risk
    - In Iron Butterflies, the short put or call could be assigned early if it's deep ITM and the extrinsic value is gone.
    - Assignment could result in owning the stock or being short the stock, which defeats the purpose of a defined risk spread.
2. Eliminating Pin Risk

- If the underlying pins the short strike (i.e., closes exactly at the strike), your profit is maximized.
- BUT — even a tiny move after the close can cause one leg to finish ITM and another OTM, turning your flat risk graph into a real stock position over the weekend.

3. Reducing Slippage and Execution Complexity
    - Near expiry, bid/ask spreads can widen, especially on OTM legs with low value.
    - It's better to close all legs simultaneously in a single order (multi-leg order) to reduce the chance of partial fills or errors.
4. Locking In Profits
    - If the butterfly has reached most of its max profit, there's little left to gain, but still room to lose. It's often better to take profits and redeploy capital.

What to Do When One Leg Has No Value

- It's common for one of the wings to be worth pennies or zero. You still want to close the entire spread as a unit.
- Some brokers charge extra to exercise or assign contracts. You don't want to inadvertently own 100 shares or worse, be short, just to save a few dollars in commission.

Risks of Not Closing:

1. Unexpected Assignment (especially in American-style options)
2. Being Assigned on One Leg but Not the Other (creates stock exposure)
3. Exercise Risk from Market-Makers or Retail Traders
4. Weekend Gaps if Holding Through Expiry
5. Capital or Margin Usage Increases

Best Practices for Closing Butterflies:

- Close trades before expiration day whenever possible.
- Use limit orders to capture favorable pricing.

- If one leg has no value, place the closing order as a spread rather than individual legs.
- Always double-check for open short legs before market close on expiration Friday.

Conclusion

While it may seem harmless to let butterfly or iron butterfly trades expire worthless, the risks of unexpected assignment, pinning, or execution surprises are real and potentially costly. By actively managing and closing trades — even when one leg is worthless — traders protect themselves from operational headaches, unnecessary exposure, and the kinds of mistakes that erode long-term profitability. Remember: just because a trade is nearly over doesn't mean it can't still sting.

Ultimate Crash Strategy

Overview:

- This presentation discusses strategies for profiting during market crashes and preparing for quick recoveries.

Key Concepts:

- Market Recovery: If a stock falls significantly during a crash but recovers quickly, the potential gains can be substantial.
- Example: A stock fall from $100 to $20 (80% drop) and then recovering to $100 represents a 500% gain.

Profit Fast When Markets Fall:

- Buying Puts: Demonstrated with real examples of significant profits from buying put options during market declines.

10 Point Checklist for Identifying Market Crashes:

1. Combined Index Equity Put/Call Ratio:

- Indicator for extreme market sentiment, useful for identifying tops and bottoms.
- Top Zone: 10-day SMA nearing 0.75 or below (bullish sentiment).
- Bottom Zone: 10-day SMA nearing 1.0 or above (bearish sentiment).

2. Daily SPX Index Put/Call Ratio:

- Short-term indicator for market sentiment.

- Excessive put buying (~2.75) indicates a bottom.
- Excessive call buying (~1.75) indicates a peak.

3. TRIN Readings:

- Measures market breadth and sentiment.
- Over 2.0: Extreme oversold, good for a 1-day bounce.
- Under 0.50: Extreme overbought, likely flat or down the next day.

4. VIX (Fear Index):

- Measures market volatility and investor fear.
- High VIX indicates high fear, often a good buying opportunity for seasoned traders.

5. SKEW:

- Measures perceived the risk of a significant market decline.
- Over 135: Bearish.
- 115 to 135: Neutral.
- Below 115: Bullish.

6. HYG (High Yield Corporate Bonds):

- Analyzes risk appetite in the market through bond trends.

7. JNK (Junk Bonds):

- Like HYG, it reflects risk appetite and market trends.

8. GS (Goldman Sachs):

- Often seen as a market leader; as GS goes, so goes the market.

9. 50% Stocks Under 50-Day MA:

- Indicates a bearish market condition when more than 50% of stocks are below their 50-day moving average.

10. SPX Opening Range:

- 92% accuracy in predicting market direction.

Bearish Trades to Profit/Protect:

Strategies:

- Buy OTM put options on major indices (SPY, QQQ, IWM).

- Buy call options on leveraged inverse ETFs (QID, SH, SDS).
- Buy call options on VIX.

Fast Recovery:

Opportunities:

- Market crashes create buying opportunities, especially for strong companies sold off during panic.
- Post-crash recoveries can offer substantial gains.

Generational Wealth After Market Crash:

- Synthetic Long Stock Strategy:
- Uses options to simulate long stock positions, offering substantial leverage and profit potential.
- Example: MSTR synthetic position resulting in significant profit over a short period.

Conclusion:

- Combining Strategies:
- Use bearish strategies to protect and profit during downturns.
- Apply bullish strategies on undervalued growth stocks during recovery phases to generate significant wealth.

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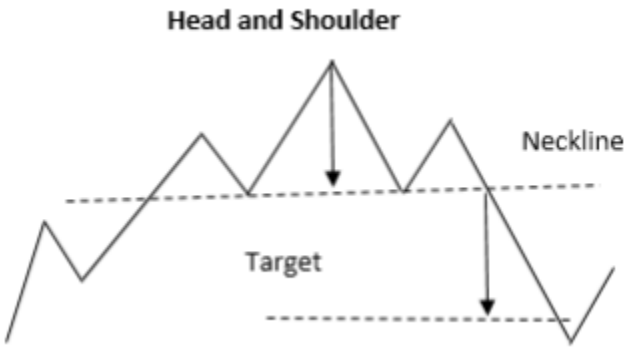
How to Read Trading Chart Patterns: A Comprehensive Guide

Understanding chart patterns is a key skill for any trader or investor. Chart patterns provide insights into market sentiment and can help predict potential price movements. In this guide,

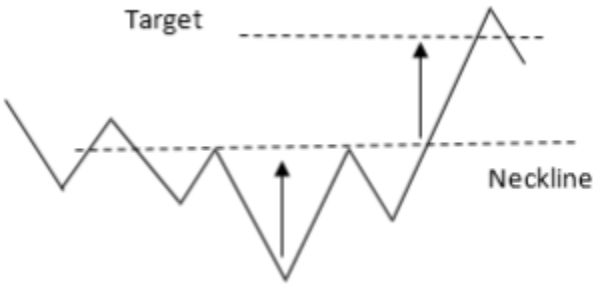
we will explain how to read common chart patterns, providing descriptions and placeholders for images. Be sure to add corresponding images to visualize the patterns.

Head and Shoulders Pattern

The head and shoulders pattern are a reversal pattern that signals a change in trend. It consists of three peaks, with the middle peak (the head) being higher than the two outer peaks (the shoulders). This pattern is typically used to predict a reversal from an uptrend to a downtrend.

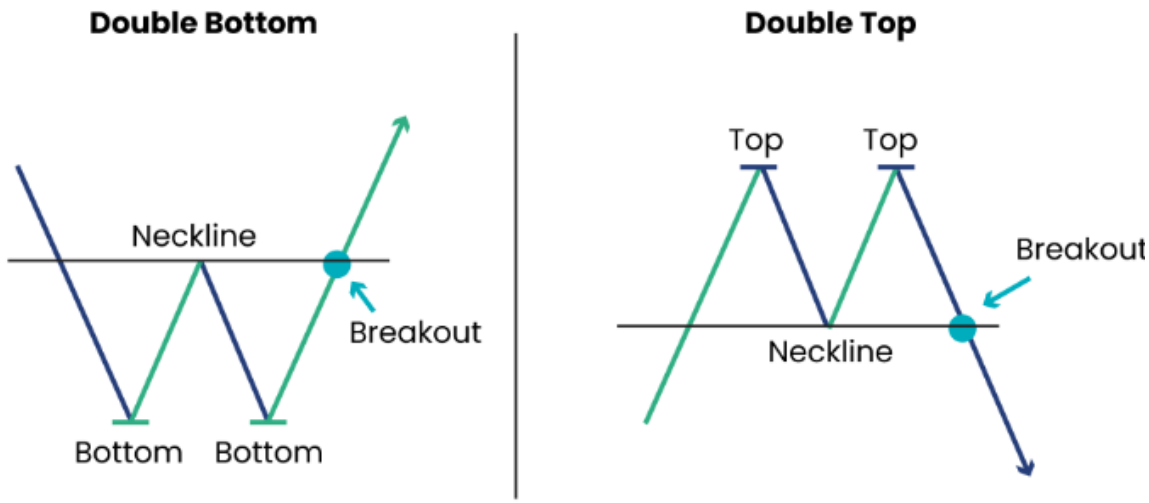


Inverse Head & Shoulders



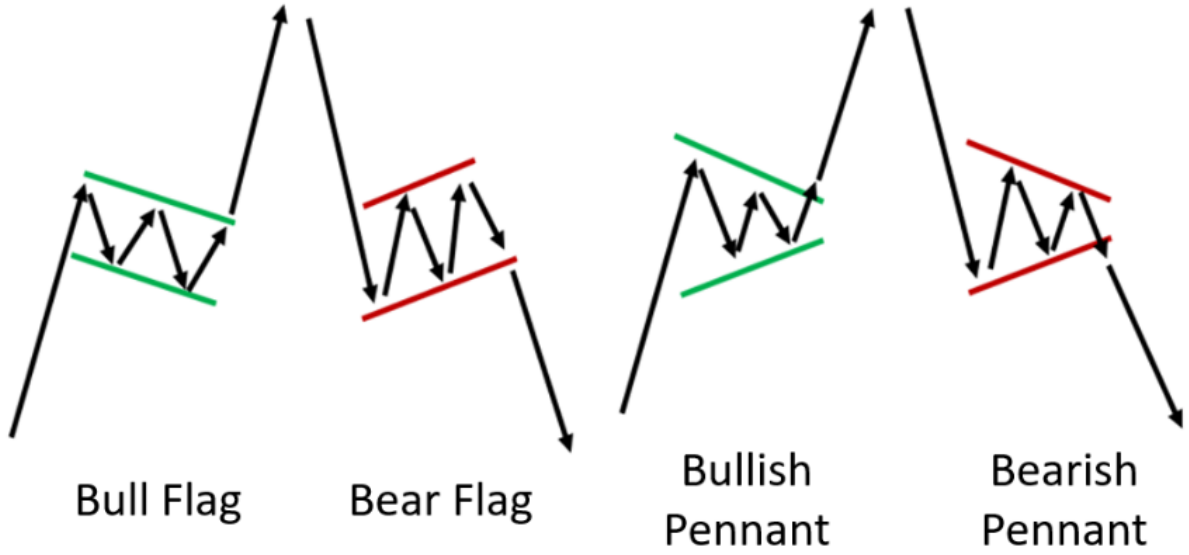
Double Top and Double Bottom

The double top and double bottom are reversal patterns that occur after a sustained uptrend (double top) or downtrend (double bottom). A double top indicates that the asset's price is unable to break above a certain level, while a double bottom suggests the price is unable to break below a certain level, signaling a potential reversal.



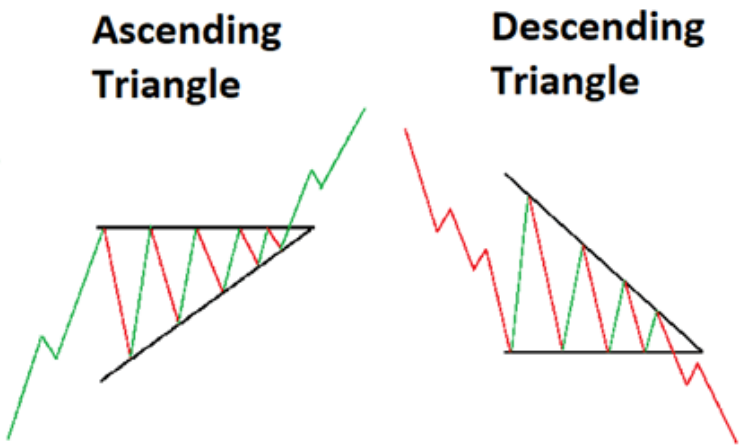
Flag and Pennant Patterns

Flag and pennant patterns are continuation patterns that suggest the price will continue in the direction of the prevailing trend. A flag pattern forms a rectangular shape, while a pennant pattern forms a small symmetrical triangle. Both patterns represent consolidation before a breakout.



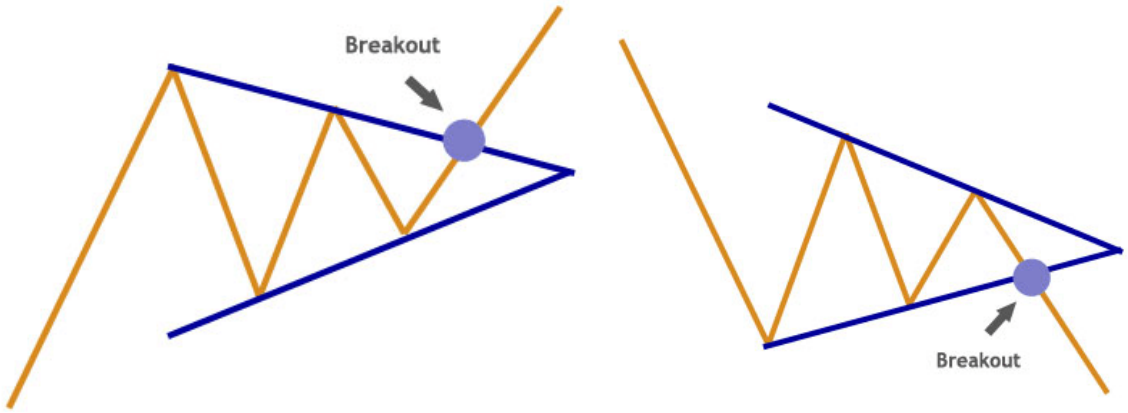
Ascending and Descending Triangle

The ascending triangle is a bullish continuation pattern formed by a horizontal resistance level and an upward sloping support line. The descending triangle is a bearish continuation pattern formed by a horizontal support level and a downward sloping resistance line. Both patterns suggest that a breakout is imminent.



Symmetrical Triangle Pattern

The symmetrical triangle pattern is a continuation pattern where the price consolidates between converging trend lines. This pattern signals that a breakout is likely, but the direction is uncertain until the price breaks above or below the trend lines.



Cup and Handle Pattern

The cup and handle have a bullish continuation pattern that looks like a tea cup. The cup forms after a price decline followed by a recovery, and the handle forms as the price consolidates before breaking out higher.

Rising and Falling Wedges

Wedges are reversal patterns that signal a change in trend. A rising wedge indicates a potential reversal to the downside, while a falling wedge indicates a potential reversal to the upside. Both patterns are formed by converging trend lines.

Conclusion

Chart patterns are an essential tool for technical analysis, helping traders predict future price movements based on historical price data. By mastering these patterns and understanding their implications, traders can make more informed decisions and improve their trading strategies. Remember to add the appropriate images for each pattern in the placeholders provided.

How to Read Price Action: A Comprehensive Guide

Candlestick charts are one of the most popular tools for technical analysis. They provide insights into market sentiment, reversals, and price movements. This guide explains how to

read common candlestick patterns and includes placeholders where you can add images to visualize each pattern.

Opening Range

Overview

- Objective: Use the SPY (S&P 500 ETF) to confirm market direction by analyzing the opening range.

What is the Opening Range?

- Definition: The opening range shows the SPY's high and low price of a given day.
- Importance: Indicates market sentiment and price trends, helping to determine if the market is neutral, bullish, or bearish.
- Accuracy: Over 90% accurate in determining market sentiment during the period.

Why Use SPY?

- Reason: Correlates to the top 500 market cap stocks, providing a good sample size.
- Coverage: Represents a broad market perspective with approximately 4500 companies listed on the exchange.

Adjusting the Opening Range

- Frequency: Adjust twice a month:
- First trading day of the month.
- Third Friday of the month.

Configuring the Opening Range

Steps:

- Mark High and Low Points: Use TradingView charts on SPY to mark the high and low points of the candle.
- First Trading Day Example: Demonstrated with May's first trading day, showing a neutral market.

Drawing the Opening Range Lines

1. Type the Ticker "SPY": Use the magnifying glass icon on TradingView.
2. Select "Horizontal Line": Choose from the symbol menu.
3. Place the Lines:
    - Top Line: Drop the line on the highest point of the first trading day's candle.

- Bottom Line: Drop the line on the lowest point of the first trading day's candle.

Interpreting the Opening Range

Current Price Analysis:

- Above the upper line: Bullish market.
- Below the lower line: Bearish market.
- Between the lines: Neutral market.

This presentation outlines a method for using the SPY's opening range to gauge market sentiment, highlighting its effectiveness and the steps for implementing this strategy on a trading platform.

Price Action Truth

Price Action Basics:

- Concept: Price is the ultimate truth in trading, reflecting all available information.
- Importance: Most important aspect of trading, determining the market's current state.
- Market Conditions: Every market is either in a trend or a trading range.
- Automation: Most trading is automated, with orders placed by computers and algorithms.
- Key Players: Banks, hedge funds, high-frequency trading firms, pension and mutual funds, and large individual traders.

Understanding Market Dynamics:

- Institutions: Around 200 institutions dominate the US stock market.
- Institution Definition: Large entities with significant influence over market movements.

Price Action Who's in control.

Continuing Basics:

- Price Action: Essential for understanding market behavior.
- Market Structures: Identify trends and trading ranges.
- Charts and Analysis: Using charts to visualize price movements and market conditions.

Tools and Techniques:

- Software Programs: Utilize various tools and software for automated trading and analysis.
- Algorithms: Implement strategies based on algorithmic trading principles.

Price Action Volume

Volume and Its Significance:

- Volume as Conviction: Volume indicates the strength and conviction behind a price move.

Types of Volume:

- Resting Volume: Indicates a lack of activity or preparation for a move.
- Igniting Volume: Signals the start of a new trend or continuation of an existing one.
- Ending Volume: Marks the potential end of a trend or reversal point.

Volume Analysis:

- Analyzing Volume: Understand how volume confirms or refutes price action.
- Market Sentiment: Use volume to gauge market sentiment and potential future movements.

Price Action Volume Entry & Exit

Volume for Entry and Exit:

- Entry and Exit Strategies: Utilize volume patterns to determine optimal entry and exit points.

Practical Application:

- Real-life charts are examples to identify potential trades.
- Test your understanding by analyzing charts and identifying patterns.

Visualization and Target Setting:

- Target Analysis: Determine price targets based on volume and price action.
- Stop-Loss Placement: Strategically place stop-loss orders to manage risk.

Price Action Structure

Advanced Trading Concepts:

Breakouts:

- 90% of the time, prices are in a channel or trading range.
- Only 10% of candlesticks are in breakout mode.

Trade Structuring:

- Know your risk and exit points.

- Decide on call or put options, delta selection, and profit goals.

Trading Discipline:

- Trade Management: Successful traders manage their trades well and are always aware of their risk.
- Market Conditions: If price action is unclear, move on to another opportunity.

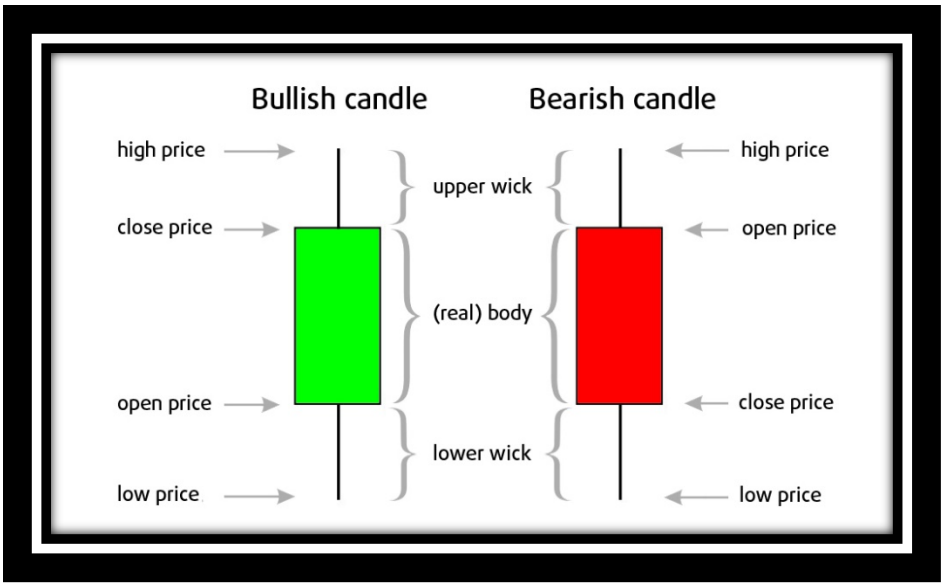
Key Takeaways:

- Price Analysis: Essential for understanding market movements.
- Volume as a Tool: Integral for confirming price action and making informed trading decisions.
- Discipline and Strategy: Crucial for consistent trading success.

These summaries cover the essential concepts of price action, volume analysis, and practical application in trading strategies.

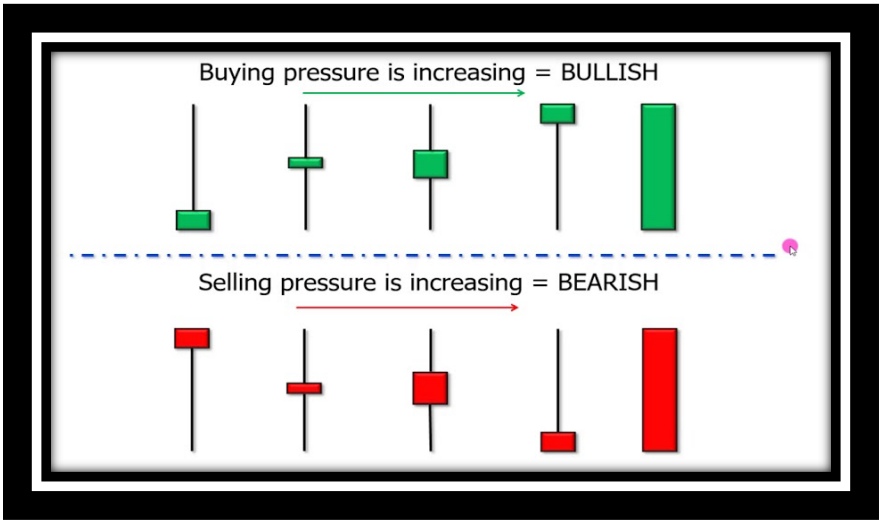
Understanding Candle sticks

- Candlestick charts are used by traders to determine possible price movement based on past patterns.
- Candlesticks are useful when trading as they show four price points (open, close, high, and low) throughout the period the trader specifies.
- Many algorithms are based on the same price information shown in candlestick charts.
- Trading is often dictated by emotion, which can be read in candlestick charts.
- Remember we are trading on daily charts so, when looking at placing a trade do it off the daily chart.
- Using smaller time frames to see the daily picture is something you can do regards learning price action.



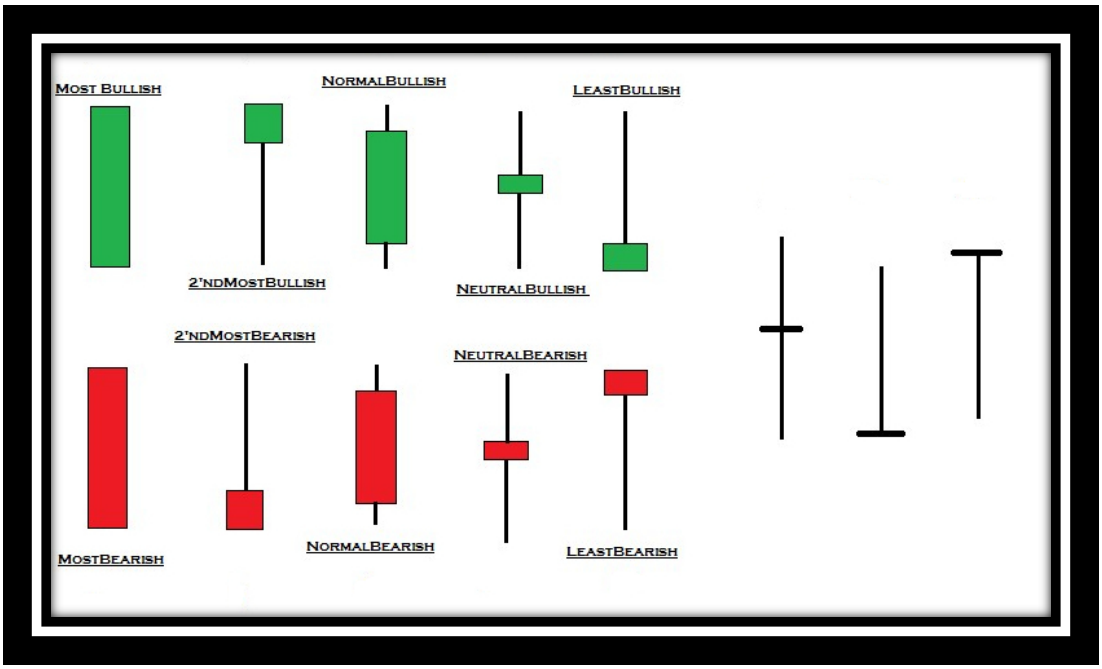
Every Candle is part of a bigger story

- Strong to weak bullish guide.
- Strong to weak bearish guide.

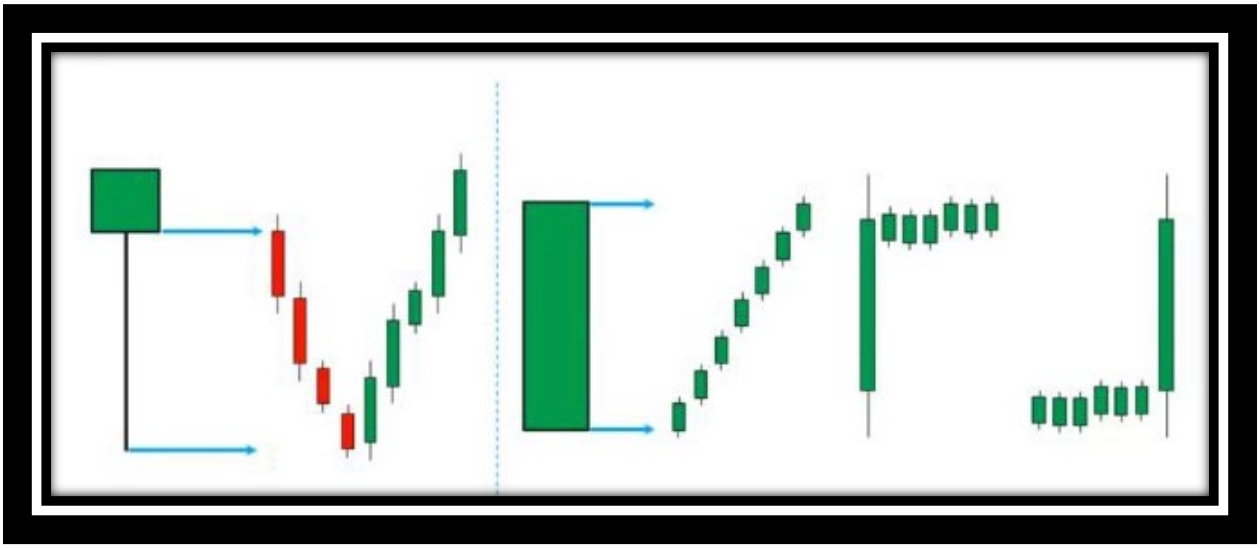


Description of the candles

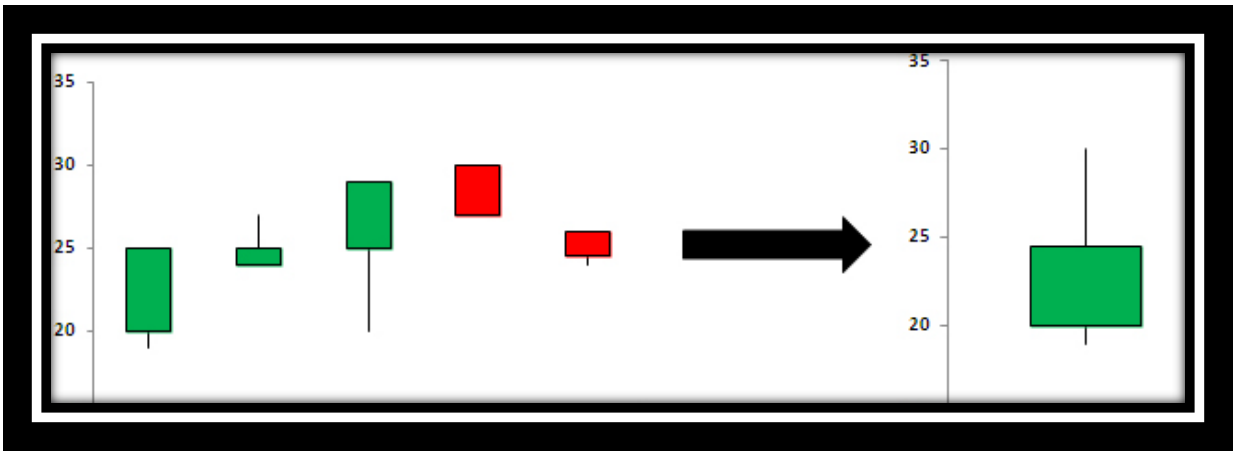
- As per diagram below you can identify price action of each candle based on how they close. Is it bullish or bearish?
- This will help in understanding price action better.



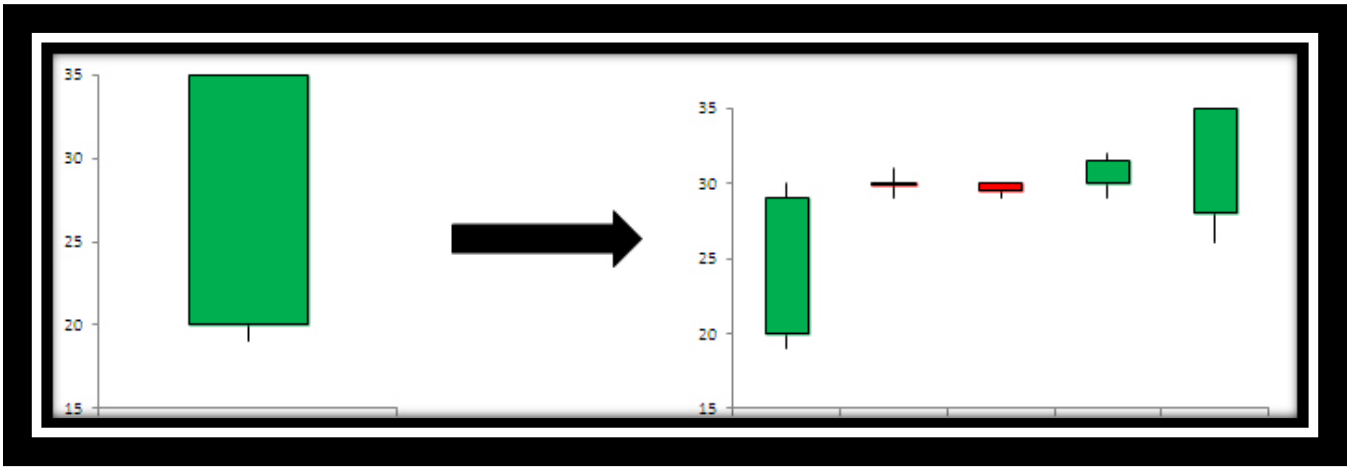
Looking at a smaller time frames to see how the big picture was made.



More example of let's say what a 5-minute candle would look like based on 1 minute time frame.



Another example of what smaller timeframes can look like whilst forming the larger timeframe.



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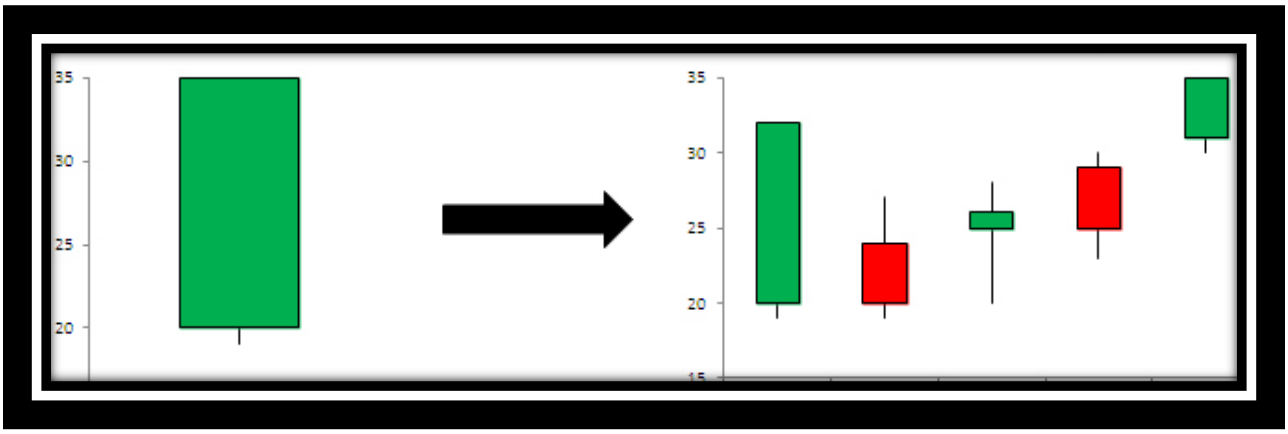

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BULL BEAR CHART

How do we use it for Call Option Trades

When the signal says BULL
Price Needs be above 50 SMA
Ensure MACD Histogram Is Green

Call Options Entry - Call

Call Options Exit

Exit A Call Trade

When in a CALL trade and the trade than show on the chart as BEAR exit
When price closes below 50 SMA
Which ever happens first get out

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How do we use it for Put Option Trades

When the signal says BEAR
Price Needs be below 50 SMA
Ensure MACD Histogram Is Red

Put Options Entry - Put

Exit a Put Trade

When in a PUT trade and the trade than show on the chart as BULL exit
When price closes above 50 SMA
Which ever happens first get out

Put Options Exit - Put

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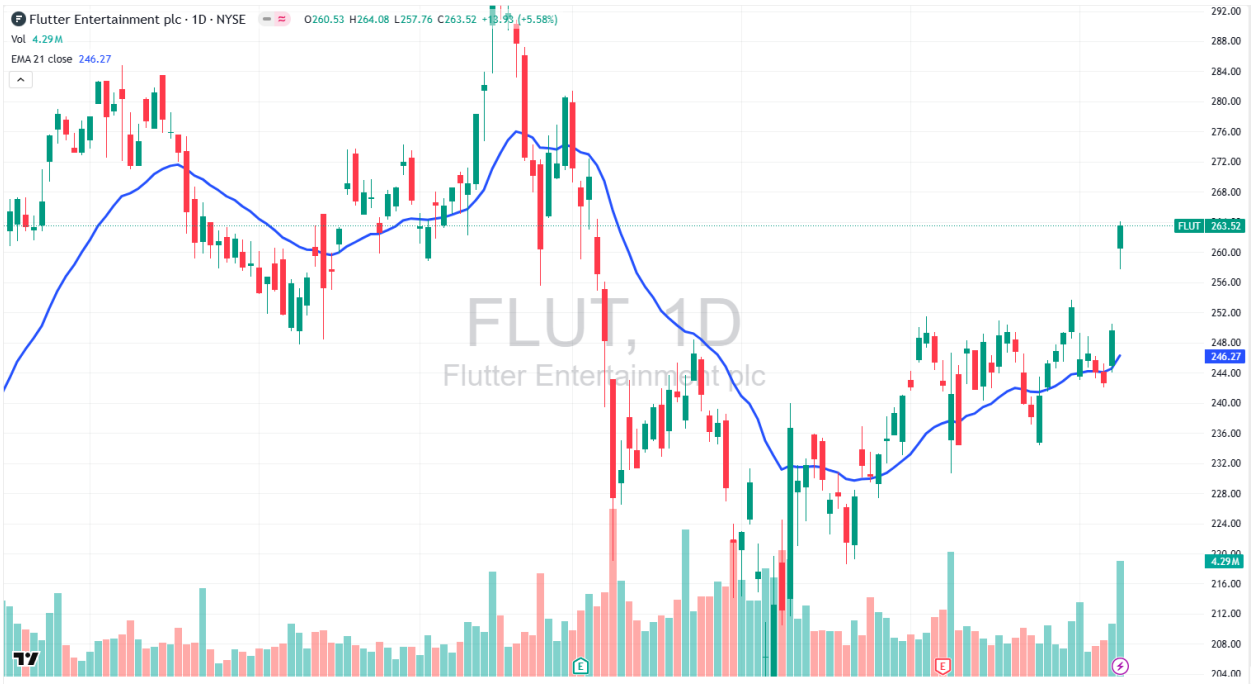
21 EMA Chart

This is what the 21 EMA Chart Looks Like



Using a 21-period Exponential Moving Average (21 EMA) is a common and effective tool for traders, especially in price action and volume-based trading. Here's how it helps, broken down by function:

How the 21 EMA Helps Traders

1. Trend Identification

- 21 EMA acts as a dynamic trend line:
    - If price consistently trades above the 21 EMA, it's often interpreted as a bullish trend.
    - If the price is below, it's a bearish trend.
- It's more sensitive than a 50 or 200 EMA, making it ideal for short to medium-term trends.

2. Price Action Context

- 21 EMA offers a reference point for price action:
    - Traders look for pullbacks to the 21 EMA to enter in the direction of the trend.

    - Candlestick patterns around the 21 EMA (e.g., pin bars, engulfing candles) are more meaningful.
- Bounce vs. Break:
    - A bounce from the 21 EMA suggests trend continuation.
    - A break below it (with confirmation) might indicate a trend reversal or deeper pullback.

3. Dynamic Support & Resistance

- EMA as support/resistance:
    - In an uptrend, 21 EMA often acts as support.
    - In a downtrend, it becomes resistance.
- Unlike static horizontal levels, it moves with price, adjusting to new highs/lows.

4. Volume Confluence

- When price pulls back to 21 EMA on low volume, it suggests a healthy retracement, likely to reverse.
- When price breaks 21 EMA on high volume, it may indicate strong interest and a potential change in direction.

Practical Use Cases

Example 1: Pullback Entry

- Price is trending up.
- It pulls back to the 21 EMA.
- Volume is lower on the pullback.
- A bullish candle (e.g., hammer) forms at EMA.
- Entry long with tight stop below the EMA.

Example 2: Exit Signal

- You're in a long trade.
- Price closes decisively below 21 EMA with increasing volume.
- This may signal weakening momentum – consider reducing or exiting the position.

Visual Strategy Summary

Scenario	Price vs. 21 EMA	Volume	Trading Signal
Trend continuation	Above EMA	Normal/Low	Buy pullback
Potential breakout	Crossing above	High	Enter on breakout with confirmation
Weak retracement	Pullback to EMA	Low volume	Enter with candle confirmation
Breakdown / reversal warning	Closing below EMA	High volume	Consider stop or short setup

Notes:_____

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Butterfly Chart

Chart Indicators Price Chart with:

- EMA20, EMA200
- Bollinger Bands 2 ATR & 3 ATR.
- RSI14 line chart (with 30/70 thresholds)

How to Use These for Trading:

For Butterfly Trades

Goal: Stock stays near a central strike (e.g., near resistance/support)

- Look for price compressing near Bollinger Band midline (EMA20) or a key moving average.
- If price is near a major resistance/support, you can center your butterfly strike at that level.
- RSI near to 50 confirms consolidation.
- Low ATR / tight Bollinger Bands suggest an ideal butterfly opportunity.

Example: Price hovering around EMA20 with RSI near 50 → ideal for Call/Put Butterfly with central strike at current price.

For Iron Condor Trades

Goal: Price stays within a range

- Look for Bollinger Band width as range boundaries.
- Use EMA200 and EMA50 as outer limits—set short strikes just beyond.
- RSI staying between 40–60 = sideway market.
- No major trend (flat EMA20/SMA9(Can add this indicator if you wish)) = ideal for Iron Condor.

Example: Iron Condor uses short strikes just outside Bollinger Bands, with long legs beyond EMA200/EMA50 (Can add this indicator if you wish).

Butterfly Pinning with Open Interest

Pinning in Butterfly Option Trading: The Role of High Open Interest

What is Pinning?

In butterfly strategies, “pinning” refers to the price of the underlying stock gravitating toward the central strike (the short strike in a butterfly) at expiration.

This matters because:

Maximum profit on a butterfly occurs if the stock closes exactly at the short strike on expiry.

Why Pinning Happens — The Mechanics

- As expiration nears, option market makers, hedgers, and institutions begin adjusting their positions.
- When there's high open interest (OI) at a strike (especially on both calls and puts), it becomes a magnet zone:
    - Delta hedging and gamma scalping cause price to naturally stabilize around that level.
    - Traders want to keep prices stable to minimize exposure.
    - Other market participants may place trades around these strikes, reinforcing price “stickiness.”

This is especially noticeable during monthly or weekly expiries when trading volumes are high.

Why High Open Interest (Calls + Puts) is Key

- A high OI strike reflects significant market attention.
- When both puts and calls have large OI at the same strike (called a “straddle strike”), it’s even more powerful:
    - It means both bullish and bearish traders are concentrated at the same level.
    - This enhances the likelihood of pinning because of increased hedging flows and option settlement dynamics.

Pinning is most probable at strikes with high OI on both sides → ideal for placing butterfly's short strike.

How to Use This in Your Butterfly Setup

1. Find a strike with high OI on both call and put side.
2. Check the chart:
    - Is price consolidating near that strike?
    - Are indicators flat (RSI ~ 50, EMAs converging)?
3. If yes, build a butterfly centered at that strike, preferably with expiration in 3–5 days.

Example

You see the $100 strike on AAPL has:

- 50,000+ OI in calls
- 60,000+ OI in puts

And the chart shows:

- Price hovering around $100
- RSI ~ 50, low volatility, Bollinger Bands tight

You place a long butterfly: Buy 95 / Sell 100 (2x) / Buy 105

If AAPL pins at $100 on expiry, you get maximum profit.

Summary: Why High OI Matters for Pinning

Factor	Why It Matters
High OI at strike	Increases chance of price “gravitating” there
High OI on both sides	Stronger magnet effect (straddle zone)
Hedging dynamics	Can suppress volatility into expiry

What Is “Pinning” in Butterfly Option Trading?

Pinning refers to a phenomenon where the underlying stock price gravitates toward the strike price of heavily traded options (especially at-the-money strikes) as expiration approaches.

In the context of a butterfly spread, especially a long butterfly, we benefit most when:

The stock “pins” at the center (short strike) of the butterfly at expiration, maximizing profit.

Why Does Pinning Happen?

- As expiration nears, market makers and hedgers adjust their delta exposure.
- If there's high open interest at a particular strike, hedging flows (gamma and delta adjustments) can pull the price toward that strike.
- This is most visible on expiration Fridays, where prices often settle near big OI levels.

How to Use Pinning in Butterfly Strategy

Ideal butterfly setup (long call or put butterfly):

- Center strike = pin target (where you think the stock will settle)
- Low-cost debit (ideally <$1)
- Expiration is near Friday

If the price “pins” at the center strike, you achieve maximum payoff.

How It Relates to the Chart Construct Above

Let’s connect this to the technical setup:

Indicator	What to Watch for	Why It's Relevant for Pinning
EMA20 / SMA9	Price hovering near these = consolidation	Suggests a "magnet" area where pinning might occur
Bollinger Bands	Narrowing bands (squeeze)	Reduced volatility → more likely price stays close to center
RSI14 ~ 50	Neutral momentum	Supports “no breakout” thesis → better chance of pinning
Support/Resistance	Align center strike with technical level	Increases likelihood price gets stuck there

Example

You’re considering a call butterfly with strikes at:

- 95 (buy) / 100 (sell 2x) / 105 (buy)
- Chart shows:
    - Price hovering at EMA20/SMA9 ≈ $100
    - Bollinger Bands squeezed
    - RSI ~50
    - No big earnings/events

You enter the butterfly expecting pinning at $100 near expiry.

If it pins at $100, you make the maximum reward from the spread.

Understanding Stock Splits from an Options Trading Perspective

What Is Stock Split?

A stock split occurs when a company increases the number of its outstanding shares while reducing the share price proportionally, so that the overall market value remains unchanged.

Example: A 2-for-1 split means you get 2 shares for every 1 share you own, but the share price is halved.

There are two main types: - Forward split (e.g., 2-for-1, 3-for-1): Increases shares, reduces price. - Reverse split (e.g., 1-for-5): Reduces shares, increases price.

How Stock Splits Affect Options Contracts

When a stock undergoes a split, options contracts do not disappear. Instead, they are adjusted by the Options Clearing Corporation (OCC) to reflect the new structure.

Here's what changes:

Contract Size

- Standard options represent 100 shares.
- After a 2-for-1 split, one option now represents 200 shares.

Strike Price

- The strike price is adjusted inversely to maintain the same economic value.

Underlying Symbol

- Adjusted options may temporarily trade under a new ticker suffix (e.g., AAPL1).

Multiplier

- Total premium value is preserved via changes in the contract multiplier.

Example: Apple 4-for-1 Split (2020)

- Before split: 1 contract = 100 shares of AAPL @ $500 strike
- After split: 1 contract = 400 shares of AAPL @ $125 strike

The position value remains equivalent.

Where to Find Stock Split Information

1. NASDAQ Split Calendar: https://www.nasdaq.com/market-activity/stocks/splits
2. Yahoo Finance → "Historical Data" → Adjust dropdown to include "Stock Splits"
3. Company Investor Relations Page
4. Options Clearing Corporation (OCC) Bulletins: https://infomemo.theocc.com/

How to Benefit from Stock Splits as an Options Trader

1. Anticipate Volatility and Momentum

- Splits (especially in popular growth stocks) often lead to buying enthusiasm and increased liquidity.

- Traders may buy calls pre-split expecting a post-split run.

2. Lower Price = More Options Activity

- After a split, the stock price is lower → more retail participation → higher option volumes
- You can use short premium strategies (e.g., iron condors or put spreads) in high IV environments.

3. Pre-Split Run-up

- Stocks often rally leading up to a split (Tesla, Nvidia, Apple cases)
- Consider buying long calls or call spreads ahead of the event

4. Adjust Strategy for Contract Changes

- If you're holding options through a split, be sure to review OCC memos
- Adjust strike analysis post-split based on new pricing structure

Risk Management Considerations

- Liquidity risk: Adjusted contracts may have wider bid/ask spreads
- Assignment risk: Know your new deliverables if you're short options
- Early exercise: Understand dividend dates and contract terms

Summary Checklist for Option Traders:

Step	Action
1	Check company news & verify stock split type (forward/reverse)
2	Review of OCC memos for contract adjustments
3	Watch price action pre- and post-split
4	Recalculate strike equivalence post-split
5	Consider volatility-based strategies

Stock splits create temporary inefficiencies and trading opportunities. With proper research, you can benefit from price moves, increased volume, and strategic adjustments in the options chain.

Dark Pools in Trading and Their Use in Options Trading: A Comprehensive Guide

Dark pools are private financial exchanges where institutional investors can trade securities anonymously. Unlike public exchanges, such as the NYSE or NASDAQ, trades in dark pools are not visible to the public until after they have been executed. This can help to minimize market impact, particularly for large trades, and allow institutions to execute their strategies without revealing their intentions to other market participants.

What are Dark Pools?

Dark pools are off-exchange venues where large quantities of securities are traded without immediate transparency. They were originally created to help institutional investors trade large blocks of stocks without causing drastic price fluctuations. When a trade is executed in a dark pool, its details (such as price and volume) are only reported after the transaction is completed.

How Dark Pools Work

Trade in dark pools is typically conducted by institutional investors such as hedge funds, pension funds, and mutual funds. Orders placed in a dark pool are matched with other orders at pre-determined prices based on market conditions. The main benefit is that it helps large traders avoid significant market impact that could arise if their orders were executed on public exchanges.

Dark Pools and Options Trading

While dark pools are primarily associated with equity trading, they can also play a role in options trading. Since options are derivatives of the underlying stocks, institutional investors who trade large amounts of stock via dark pools might simultaneously use options to hedge their positions or enhance returns.

Hedging with Options in Dark Pools

In some cases, institutional investors may use options in conjunction with trades executed in dark pools. For instance, an institution could use put options to protect a large stock position traded in a dark pool, hedging against potential downside risk. This helps them reduce exposure while maintaining the benefits of trading in dark pools.

Speculation and Leveraging Opportunities

Some investors use options to speculate on the potential movement of a stock, especially after seeing unusual volume in dark pool trades. A significant increase in dark pool activity might hint

at a potential upcoming price movement, prompting some traders to buy options (calls or puts) to take advantage of that movement. Options allow for leveraging relatively small amounts of capital to benefit from significant price changes.

Risks and Challenges

While dark pools provide certain advantages, they also pose risks. The lack of transparency means that retail traders may not have access to the same information as institutional traders. This can create an uneven playing field, especially for those looking to use options to capitalize on dark pool activity. Additionally, the complexity of understanding dark pool volumes and their influence on the options market can be challenging.

Unusual Option Activity and Dark Pools

Unusual option activity (UOA) refers to higher-than-average volume in specific option contracts, often because of large orders being placed by institutional investors. When this activity occurs, it can signal that market participants are positioning themselves for a significant move in the underlying stock.

Identifying UOA in Dark Pools

Dark pools are not as transparent as public exchanges, which makes detecting unusual option activity linked to dark pool trades more difficult. However, traders can track large block trades or volume surges in specific stocks through various analytical tools that monitor both dark pool activity and open interest changes in the options market.

Using UOA in Dark Pools for Trading Strategies

When institutional investors make large trades in dark pools, this may prompt unusual option activity as they hedge their positions or take speculative positions. Traders who track UOA in relation to dark pool activity can potentially uncover significant opportunities. For example, a surge in call option buying, paired with large dark pool trades, could signal bullish sentiment, whereas a rise in put buying might indicate a bearish outlook.

Risks of Following UOA in Dark Pools

While unusual option activity can provide valuable insight, it carries risks, especially when combined with dark pool trades. Since dark pool activity is not immediately transparent, it is easy to misinterpret the intent behind large trades. Traders must also consider that large institutions may be using complex strategies that are not always directional. Careful analysis and risk management are essential when using UOA data for options trading.

Conclusion

Dark pools are an important tool for institutional investors to execute large trades with minimal market impact. Although primarily used in equity markets, dark pool activity can influence options trading strategies, particularly in the areas of hedging and speculation. While there are benefits to using dark pools, investors should be aware of the risks and lack of transparency that come with these private exchanges.

Options Trading Terminology and Explanations

Call Option

A financial contract gives the buyer the right, but not the obligation, to buy an underlying asset at a specified price (strike price) within a specified time.

Put Option

A financial contract gives the buyer the right, but not the obligation, to sell an underlying asset at a specified price (strike price) within a specified period

Strike Price

The set price at which an option contract can be exercised. It is a critical factor in determining an option's intrinsic value.

Premium

The price paid by the buyer of an option to the seller (writer). It represents the cost of acquiring the option contract.

In the Money (ITM)

An option with intrinsic value. For calls, this means the underlying asset's price is above the strike price. For puts, it means the underlying assets' price is below the strike price.

At the Money (ATM)

An option whose strike price is equal to or very close to the current price of the underlying asset.

Out of the Money (OTM)

An option without intrinsic value. For calls, this means the underlying asset's price is below the strike price. For puts, it means the underlying asset's price is above the strike price.

Expiration Date

The last day on which the option can be exercised. After this date, the option becomes worthless if not exercised.

Delta

A Greek metric measuring the sensitivity of an option's price to changes in the price of the underlying asset. Delta ranges from -1 to 1.

Theta

A Greek metric that measures the rate of time decay of an option. It indicates how much an option's price decreases as time passes.

Gamma

The rate of change of delta with respect to changes in the underlying asset price. It helps assess how stable the delta value is.

Vega

A Greek metric measuring the sensitivity of an option's price to changes in implied volatility. Higher Vega indicates greater sensitivity to volatility changes.

Intrinsic Value

The value of an option if it were exercised immediately. It is calculated as the difference between the underlying asset price and the strike price (for ITM options).

Extrinsic Value

The portion of an option's price that exceeds its intrinsic value. It accounts for time value and implied volatility.

Implied Volatility (IV)

The market forecast for a likely movement in the underlying asset's price. It influences the premium of an option.

Bid-Ask Spread

The difference between the highest price a buyer is willing to pay (bid) and the lowest price a seller is willing to accept (ask) for an option.

Option Chain

A list of all available option contracts for a particular underlying asset, organized by expiration date and strike price.

Assignment

The process by which an option seller is required to fulfill the terms of the contract. For calls, this means selling the underlying asset; for puts, buying it.

Exercise

The action taken by the buyer of an option to utilize their right to buy or sell the underlying asset at the strike price.

Covered Call

A strategy where an investor holds the underlying asset and sells a call option on the same asset to generate income.

Naked Option

An option position where the seller does not own the underlying asset. This exposes the seller to significant risk.

LEAPS (Long-Term Equity Anticipation Securities)

Options with expiration dates longer than one year, often used for longer-term investment strategies.

Advanced Options Trading Terminology

Implied Volatility Skew

A pattern of implied volatility that varies by strike price and expiration date. It can indicate market expectations for future price movements.

Volatility Smile

A graphical representation showing that implied volatility is higher for ITM and OTM options compared to ATM options, often seen in equity markets.

Iron Condor

An advanced options strategy combining a bull put spread and a bear call spread to profit from low volatility within a defined range.

Straddle

A neutral strategy involving buying a call and a put option at the same strike price and expiration, aiming to profit from significant price movements in either direction.

Strangle

Like a straddle, but the call and put options have different strike prices. It is used to profit from volatility while reducing premium costs.

Butterfly Spread

A limited-risk, non-directional strategy combining bull and bear spreads with a fixed profit range. It involves buying one ITM option, selling two ATM options, and buying one OTM option.

Iron Butterfly

A strategy combining a long call spread and a long-put spread around the same strike price, aiming to profit from low volatility.

Calendar Spread

A strategy involving the purchase of a long-term option and the sale of a short-term option at the same strike price, benefiting from time decay differences.

Delta Hedging

A strategy used to neutralize the impact of price movements in the underlying asset by balancing an option position's delta to zero.

Theta Decay Arbitrage

A strategy exploiting the accelerated time decay of options nearing expiration to generate consistent profits.

Synthetic Positions

The creation of a position using combinations of calls, puts, and the underlying asset to replicate another position. For example, a synthetic long stock is created with a long call and a short put.

Box Spread

An arbitrage strategy combining a bull call spread and a bear put spread, aiming to lock in a risk-free profit.

Vertical Spread

A strategy involving the simultaneous purchase and sale of options with different strike prices but the same expiration date. It includes bull and bear spreads.

Delta-Neutral Strategy

A portfolio strategy designed to have a net zero delta, minimizing exposure to price movements in the underlying asset.

Risk Reversal

A strategy involving the purchase of a call and the simultaneous sale of a put (or vice versa) to express a directional view on the underlying asset.

Payoff Diagram

A graphical representation of the profit or loss of an option or strategy at expiration, based on different underlying asset prices.

Helpful Websites

News Websites

1. www.money.cnn.com
2. www.cnbc.com
3. finance.yahoo.com
4. www.marketwatch.com
5. www.wsj.com
6. www.zerohedge.com
7. www.bloomberg.com
8. https://www.reuters.com/
9. https://www.ft.com/

Economic Announcement Websites:

1. www.econoday.com
2. www.forexfactory.com

Earnings Announcement Websites:

1. www.earningswhispers.com

Websites for additional Trading Research:

1. www.tradingview.com
2. www.stockcharts.com
3. www.investing.com
4. https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html
5. https://www.aaii.com/sentimentsurvey
6. https://www.sectorspdrs.com/allsectors

Websites for 10 Point Checklist:

1. www.ycharts.com/indicators/cboe_spx_put_call_ratio
2. www.stockcharts.com

Screening Websites for Stocks (Please register to these sites):

1. www.finviz.com
2. www.chartmill.com

https://www.optionseducation.org/toolsoptionquotes/historical-and-implied-volatility

Potential Trading Edges in Options Trading

This document lists potential trading edges that can help traders gain an advantage in the options market. These edges can be leveraged to increase profitability, manage risk, and improve decision-making.

1. Volatility Edges

1. Exploiting Implied Volatility (IV): Trade options when IV is significantly higher or lower than historical volatility.
2. IV Crush: Sell options before an earnings event to benefit from the post-event IV drop.
3. Volatility Skew: Use options with higher or lower IV across different strikes to create spreads.

2. Time Decay (Theta) Edges

1. Selling Premium: Sell options to capitalize on time decay, especially in high IV environments.
2. Short-Term Expiration: Focus on options with shorter expiration dates for rapid theta decay.
3. Rolling Positions: Continuously roll short positions to maintain theta advantage.

3. Directional Edges

1. Technical Analysis: Use chart patterns, support/resistance levels, and moving averages to predict price movements.
2. Fundamental Analysis: Base trades on macroeconomic factors or company-specific events.
3. Trend Following: Trade with the prevailing trend for higher probability setups.

4. Strategy Edges

1. Spreads: Use vertical, calendar, or diagonal spreads to limit risk and optimize returns.
2. Hedging: Create protective strategies like collars or married puts.
3. Neutral Strategies: Deploy iron condors, butterflies, or straddles in low-volatile markets.

5. Market Knowledge Edges

1. Event Knowledge: Trade around earnings, economic reports, or geopolitical events.
2. Seasonal Trends: Leverage seasonal patterns in specific stocks or indices.
3. Sector Rotation: Focus on sectors with strong relative performance.

6. Psychological Edges

1. Discipline: Stick to predefined trading plans and avoid impulsive decisions.
2. Emotional Control: Avoid overreacting to market swings.
3. Patience: Wait for high-probability setups and avoid overtrading.

7. Technology Edges

1. Advanced Charting Tools: Use tools to identify patterns and trends.
2. Algorithmic Trading: Develop or use algorithms for systematic trading.
3. Data Analysis: Analyze large datasets to uncover market inefficiencies.

8. Risk Management Edges

1. Position Sizing: Allocate appropriate capital to each trade.
2. Stop-Loss Orders: Set limits to cap potential losses.
3. Diversification: Avoid overexposure to a single asset or strategy.

9. Knowledge and Experience Edges

1. Education: Continuously learn about new strategies and market dynamics.
2. Back testing: Test strategies on historical data to validate their effectiveness.
3. Mentorship: Learn from experienced traders.

Fundamental and Technical Edges for Trading Options

This document outlines key fundamental and technical edges that traders can leverage to improve their success in options trading. These edges provide insights into market behavior and help traders make informed decisions.

1. Fundamental Edges

1.1 Earnings Reports

Trading options around earnings reports can be highly lucrative due to the volatility associated with these events. Implied volatility often spikes before earnings, creating opportunities for strategies like straddles, strangles, or selling premium post-earnings.

1.2 Economic Indicators

Key economic indicators such as GDP growth, employment data, inflation reports, and Federal Reserve interest rate decisions can influence market trends and volatility. Understanding these indicators can help traders position their options strategies accordingly.

1.3 Sector Rotation

Identifying capital flow between sectors (e.g., technology, healthcare, finance) can provide trading opportunities. Traders can focus on options for leading stocks within the outperforming sectors.

1.4 Dividend Announcements

Dividend-paying stocks can create opportunities in options trading. Strategies like covered calls or cash-secured puts can be particularly effective during dividend announcements.

1.5 Mergers and Acquisitions

News of mergers or acquisitions can lead to significant stock price movement. Options traders can capitalize on this volatility through directional or volatility-based strategies.

2. Technical Edges

2.1 Price Action and Trends

Identifying trends (bullish, bearish, or sideways) can help traders align their strategies. For example:

- Bullish Trends: Long calls, bull calls spread.
- Bearish Trends: Long puts, bear put spreads.

- Neutral Trends: Iron condors, butterflies.

2.2 Support and Resistance Levels

Using key support and resistance levels can help traders determine entry and exit points. Optional strategies like strangles or vertical spreads can be aligned with these levels.

2.3 Moving Averages

Moving averages (e.g., 50-day, 200-day) act as dynamic support and resistance levels. They can signal trend reversals or continuations, aiding in strategy selection.

2.4 Relative Strength Index (RSI)

RSI is a momentum oscillator that measures the speed and change of price movements. Overbought or oversold conditions can signal potential reversals, useful for options traders.

2.5 Implied Volatility (IV)

Implied volatility reflects the market's expectations for future price movement. High IV favors selling premium, while low IV favors buying options.

2.6 Chart Patterns

Patterns like head and shoulders, double tops/bottoms, triangles, and flags can indicate potential price movements. Options traders can use these patterns to choose appropriate directional or volatility strategies.

2.7 Bollinger Bands

Bollinger Bands help identify volatility and price range. When prices move outside the bands, it often signals high volatility and potential reversals.

2.8 Fibonacci Retracements

Fibonacci levels are used to identify potential support and resistance zones. Options strategies can be aligned with these levels to capture reversals or continuations.

Conclusion

By combining fundamental and technical edges, traders can develop robust strategies that maximize profitability while minimizing risk. Understanding market behavior, using data-driven analysis, and applying these edges effectively can greatly enhance trading performance.

Other Notable Edges

Overall Market: Flow of Money

1. SPX is it above or below the 21EMA.
    a. Has it found a level of support or resistance?
2. MACD is moving up or down (Key Setup Chart) or what is the RSI doing.
3. Is the market bullish or bearishly stacked (Stacked Chart)
4. Is there any economic or market news that is impacting the market.

Sector and Industry

1. Which sector is preforming the strongest or weakest based on market sentiments?
2. Again, are they above or below the 21EMA?
3. Is it bullish or bearishly stacked?
4. Is a specific sector or industry being impacted more than others based on market and economic sentiments.

Stock Edges

1. 9 EMA below or above 20SMA (Key Setup)
2. Sector and Industry PRICE above or below 49 EMA & 200 SMA
3. Are there any squeezes?
4. Is this an earnings trade?
5. Is this a HSI trade?
6. Is there a charting pattern?
7. Is there a level of support or resistance?
8. Is the stock bullish or bearishly stacked?
9. Does the stock correlate to any economic or market news?

By identifying and leveraging these trading edges, options traders can improve their chances of achieving consistent profitability. Success in trading requires not just skill but also a well-defined edge.

Trading Psychology

Why do you Trade?

- I want to make money. WRONG!
- Most traders act and do not make money.

- Making up for a lack in your life
- Invest to solve a puzzle about what makes the market go up and down
- We already know strategies to make money, yet many people still struggle!

Why Do You Lose?

- Trying to be right all the time.
- Not cutting losing trades.
- Pure greed- not trying to just make money but focusing on trying to make the big score.
- Too emotional
- Lack of understanding
- Lack of plan
- No analysis of mistakes or losing trades.

The Biggest Problem Is… Lack of Self- Discipline!

- Unfortunately, self-discipline is not something that can be taught. It must come from within.
- Nobody can create self – discipline for you.
- EGO- is likely the cause of nearly ALL long-term trading losses!
- It's not natural to trade.
- We must overcome our ego to be successful yet still allow our ego to motivate us to make money.
- It is a fine line between humility and egomania that we are trying to find.
- We have met the enemy, and it is us.
- Much of the issue of self-discipline is finding ways to overcome our natural impulses driven by fear and greed.

Treat Trading as an Education

- Every time you exit a position, look at the trade and try to identify what you learned rather than how much money you make or lose.
- Money will be made and loss of every trade.
- The real issue is whether your account is increasing over the longer term.
- The key to great options trading is to have winning trades (or at least small losers) even when your initial forecast of the underlying is somewhat wrong to very wrong.

Thoughts On Speculation

- If small profits are made, then small losses must be made.

- Not having the courage to accept a loss, and being too eager to make a profit, is fatal.
- It is the ruin of most traders.

Trading Psychology Final Thoughts

- That which is unnatural and uncomfortable leads to success.
- Thinking about money is poison. TRADE THE MARKET, NOT THE MONEY.
- The market doesn't know what a "lot of money" is. It just knows how to move.
- The market could not care less about your feelings.

Trading Plan

My Golden Rules (and/or) Trading Commandments:

- Be disciplined every day, and in every trade.
- I will be my own trading "self", never trading another's plan.
- I will accept taking small losses on my trades.
- I'll always earn the right to trade more.
- I am not addicted to trading just to see what happens.
- I only trade high reward setups that have the probabilities in their favor.
- Be a bricklayer – make the same type of trades repeatedly.
- Once I find a setup, I do not hesitate; once in a trade, I do not over analyze.
- A detailed **Trading Journal** will be always kept, and I will act upon what it tells me.
- Everything I do will be for the success of my business!!!
- Your Strategy is your edge … a better probability of happening than not. Your strategy must be simple

Trading Plan Outline

A trading plan is an outline successful traders use to keep focused on decisions with a high probability for profit. The trading plan also eliminates trading scenarios that do not meet your edge.

The outline consists of two core components:

1. The trading system, method or process that defines your trading edge, which includes buy or sell signals.
2. Money management and risk management parameters that match your skills and resources.

Finally, your trading plan includes which markets (or securities) to trade, your goals, your emotional characteristics and then chooses a trading style.

Although not part of the trading plan itself, professional traders include a process for writing in trading journal.

Reviewing your performance represents a critical element of trading success ignored by most traders. Which is also why most traders never reach their full potential.

You can't improve, or eliminate mistakes, if you don't review your actions. Traders will always feel close to success, but never actually achieve financial independence without a structured process. The trading plan and the trading journal increase your odds of success.

Each of us brings unique goals, resources skills and education to trading. We bring different capital, risk tolerance, personalities, and emotions to trading. A well-thought-out trading plan gives you a document personally designed for success.

If you devote just 30 minutes per day for a week, in just seven days your trading plan transforms into an actionable trading process.

Trading Plan Components: Minimum Requirements

- Trading Concept: Defining Your Edge
- Objectives
- Trading System
- Money Management parameters
- Trade review
- Mindset

Outline Your Trading Plan Concept: Decisions for Your Strategy

- What is the philosophy/strategy/catalyst behind your trading ideas?
- Technical Analysis? News Driven?
- How active will you be?
- What is your time frame for holding trades?
- How do you identify when your edge is no longer offering a sufficient risk/reward?
- How do you know when your edge is no longer valid?

Potential Trading Plan Concepts

- Red, Blue Lines
- Volume (Igniting, declining, and exhausting)
- Moving averages:
    - 1: Choose the duration for the moving average.
    - 2: Will you use exponential or simple?
    - 3: Will you use multiple moving averages?
    - 4: Will you use multiple moving averages in multiple time frames?

- MACD as a trend filter
- Candlesticks but no moving averages. Many traders feel this is the truest sense of price action because they are not subjective.
- Will you trade bullish and bearish or only one? Many successful traders only look to one side of the market. This makes it easier to identify opportunities.

Self-Analysis

- How much time during the day can you devote to your game plan and to actual trading? (this will dictate your trading system)
- How many distractions can you expect to have?
- Can you focus for hours at a time or in short time frames?
- How much time can you devote to developing and improving your trading plan?
- What time of day do you plan on allocating to this “aftermarket” work?
- When do you plan on doing your psychological work?
- Do you know what psychological work you need to do?
- How would you rate your market knowledge?
- How would you rate your trading knowledge? How will you improve both above?
- How do you plan to assess progress?
- What are your psychological strengths and weaknesses in relation to developing your trading system? (specific to your trading concept)
- Strengths and weaknesses in terms of personal discipline that you will bring to your trading.
- Do you have emotional or financial issues that may affect your ability to focus or trade effectively or follow your plan?

Defining Personal Trading Objectives

- Can you make more money than you need to live off so that your trading capital can grow?
- Based on the above, are you being realistic, or do you anticipate trading like a seasoned professional from the start?
- How will you educate yourself after you begin trading your system?
- How much do you expect to make as a percentage of your trading capital?
- Are you basing your expectations on hope or actual trading history?
- What risk level are you willing to accept to achieve that?
- What is the largest draw down you are willing to accept on a daily, weekly and monthly basis?

- How will you know whether your plan is working or not working? Who can you ask for advice or mentoring?

Trading Plan Formula: Filling in the Details of Your Plan

Considerations for Trading Entries

- Volatility breakout, consolidation, or trend reversal
- Time based, chart based, volatility based.
- Chart based patterns: flag, channel breakout, significant chart level, wedge pattern, moving average crossover, test of support or resistance.
- must be very specific, not necessary to use all of them, know which ones you are comfortable trading (this includes considering initial risk)

Trade Management and Exits

- Initial stoploss: must be based on an acceptable dollar amount and volatility.
- How do you determine the dollar amount?
- Breakeven: when do you move initial stop to break even?
- Adding to trades: How do you know you should build a position and when would you do it?
- This will all be documented and monitored in your ***game plan***

The Trading Stop Loss and Idea Validation

- Reentry will be significant for shorter term ideas
- Wider stops for bigger targets (think swing trading)
- How will you know if you get stopped out if the idea is still valid?
- Are you willing and ready to do the same trade multiple times, taking small losses until it pays off?

Exiting Profitable Trades- Ideas to Consider:

- Exit into momentum scaling out and trading around a core position. (more active)

- Trailing a winning position and exiting on a predetermined pull back (less active requires patients for both setups and giving the trade time to play out)
- Trailing a winning position will create larger drawdowns but bigger winners (must be OK with this)

Money Management Ideas

- How much risk per idea and per day.
- How will you determine position size?
- How many total positions will you trade at once and what % of your risk capital will that represent?
- Which profit taking strategy will you employ?

Notes:_____

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Trading Plan Template

- ✧ Why am I trading:
- ✧ What is my **Approach**?
- ✧ What are my **Goals**?

- ***Monthly*** **–**
- ***Yearly*** **–**
- ***Long Term*** **–**
  - ✧ What are my **Objectives**?
  - ✧ What **Markets** will I trade?
  - ✧ What **Timeframes** will I trade?
  - ✧ What **Setups** will I trade?
  - ✧ **Entry** rules:
  - ✧ Where will I place my **Stops**?
  - ✧ **Exit** take profit (and/or) trail-stop rules:
  - ✧ **Risk Management** rules:

- ✧ **Pre-market activities** or routine:
- ✧ **Post-market activities** or routine:
- ✧ What **Tools** will I use for my trading business?
- ✧ **Review** process:
- ✧ Continuing **Education**:
- ✧ **Discipline** & Mindset notes: