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Bonus Module:

SPX Trading Plan

Some background…
Why the SPX?

➢ Higher Credits
➢ Less analysis
➢ Broad Market Based
➢ Tax advantages
➢ High Liquidity

Backtesting Results
General Trade Rules

➢ Trades done on Monday
➢ DTE always to 25, (except holidays)
➢ Only 1 trade at a time

General Trade Rules

We place our trades on Monday mornings for this system. However, placing them on any day during the week should have a limited, if any, change in overall profitability.
**General Trade Rules**

If you place the trade on another day, make sure the expiration is between 21 – 25 days.

**What if?**

No What if!
Step # 1

Check the DEW On Monday

DEW Considerations

• DEW Up – Bull Put
• DEW Dn – Bear Call
• Trade can be placed any Monday
• No rule for higher highs
• No rule for afternoon trading like we have for stocks.

That’s why this is so simple!
DEW Up = Bull Put

Bull Put any Monday

DEW Dn = Bear Call
Step # 2

Select the Expiration

Expiration Considerations

➢ Choose the Friday expiration

➢ 25 Days to Expiration *(Monday Trade)
On Monday, in OptionsPro (or with your broker) select the Friday expiration 25 days away.

Note: The expiration shown above is 24 days since Friday the market was closed for Good Friday.

Step # 3
Select the Short Strike
Short Strike Considerations

➢ Delta < 20 (-.20 for puts, .20 for calls)
➢ No exceptions

➢ Choose 1\textsuperscript{st} Strike < 20 Delta
➢ Tip: This helps you remember when you need to adjust the trade.

The 2320 Strike meets the criteria is the 1\textsuperscript{st} strike with Delta less than 20.
Step # 4

Select the “Insurance” Strike

➢ Choose insurance leg 4 strikes away

➢ $20 spread between strikes

➢ Example: 2320 and 2300
“Insurance” Strike Considerations

Why 20 points?
Because it works.

The 2300 Strike is 4 strikes below the Short Strike. Notice the $20 spread.

(2320 – 2300 = 20)
Step # 5

Target Your Entry Price

Entry Price Considerations

➢ Entry Price $1.90 or greater

➢ If the price is below this, skip the trade.
Step # 6
Trade Management Preparation

3 Techniques to Manage Your Credit Spreads
Technique #1

Take Profits At 50% of Credit Received

Initial Credit = $1.95
Profit Target is 1.95 / 2 = 97.5
Round up to 1.00 or down to .95
When a credit spread goes against you…

Use Delta to guide you!

Once the trade is on, you manage by Delta. No reason to ever go back to the graphs.
Technique #2

Add the other side if the Delta changes by 20.

Technique #2 (cont)

✓ Use the same Exp Date
✓ Select the 1st Delta < 20
✓ Use $20 spread
Technique #3

When the short strike is hit, always exit that side of the trade.

Case Study of Trade Hitting Profit Targets

Monday Sept 19, 2016
SPX Bear Call

History has shown 87% of trades will hit the profit target.
DEW Down on Monday, Sept 19, 2016
Sold 2200 / 2220 Bear Call for 3.65
Profits on Sept 26 even though the DEW Changed

Case Study of Trade
Hitting Profit Targets

Monday Dec 12, 2016
SPX Bull Put
DEW Up on Monday Dec 12, 2016

Enter the 2195 / 2175 Bull Put for 2.20
Profits on 12/19 at 1.10

Total Profit on 15 Contracts:
$1650 (not including commission and fees)

Case Study of Trade
Going Against You

May 23, 2016
SPX Bear Call
May 23, 2016

DEW was Down

The Trade...

- 2105 is 1st strike with delta < 20.
- 2125 is $20 above the short call.
- Credit is $3.25 which is well above the $1.90 minimum.
- 25 days ‘til expiration
Management

Entry Price: 3.25 Credit
Profit: 1.65 Debit

Add the other side (Put) if the Short Delta increases to 38
(Delta started at 18)

Bear Call Spread:
Initial Credit: 3.25
Profit Target: 1.65
At 9:50AM, May 25 the Delta of Short Strike has increased by 20

The Trade is down 24% or $404. We need to hedge.
Add the Other Side

Sell the 2005 / 2025 Bull Put for 2.20

Same Expiration

Added Bull Put Spread and received additional credit of 2.20
Management

The trade is now an Iron Condor and can be managed using the 25% target from the Iron Condor Profit Taking Rules.

We have a combined credit of 5.45.

Our New Profit Target is: 4.05 25%

<table>
<thead>
<tr>
<th>Analysis</th>
<th>MaxMargin</th>
<th>Cost</th>
<th>Curr Cost</th>
<th>Com</th>
<th>Profit/Loss</th>
<th>PnL %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Position</td>
<td>1,674.50</td>
<td>543.50</td>
<td>-950.00</td>
<td>4.00</td>
<td>406.50</td>
<td>24.28%</td>
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</tbody>
</table>
Trade is now an Iron Condor.

Management

Be sure to cancel the original profit target order and enter a new one for the Iron Condor.
Management

If a short side is hit, exit that side only.

Treat the other side as a Directional Credit Spread.

On June 2 at 3:55 the Short Strike was hit.
The Trade is down 29%

Exit the Call side of the trade for 9.45
Management

We sold the Calls for 3.25 and buy them back for 9.45

Net Loss is 6.20 or $620 on the Call Side

Management

When we added the other side we sold the Puts for 2.20

They are now worth .90, our profit target on that side is 1.10

You can now roll the puts
Original Put repair gained 50%. Close that and roll it up. Enter a new Put repair with a short Delta < 20.

Management

Remember, all you’d have left is the Bull Put. If you’re 50% profitable you can roll them up as long as you have more than 7 days to expiration.

Never add time!
Rolling the Trade

Select a new <20 Delta Spread with the same expiration as the original trade.

Reminder… Never add time. The trade was done with the June 17 expiration. Use the same expiration.

Rolling the Trade

The new < 20 Delta Put Spread 2060 / 2040

We get 2.25 in new Credit. Profit Target is 1.10
Received $130 profits from original Put repair. Sold another Put for 2.25 with a profit target of 1.10 or $110.

Management

Exit the Roll at 50% If short Delta goes to 39 add the other side and you’re back to an Iron Condor

This is very infrequent…
Management

On June 7 the profit target of 1.10 was hit.

We added another $115 to offset the loss on the calls.

June 7th Profit target of 1.10 or $110 was hit.
Management

To keep it simple, in the back testing I did 1 Roll.

After that, it’s time to do a new trade with 25 DTE.

Management

This means the trade started as a Bear Call. We then added a Put Spread, and rolled the Put Spread once.
Breakdown…

Original Call Trade: ($620)
Adding the other side: $130
The Roll: $115

Total Loss: ($375)

Net Loss = ($375) Instead of ($620)
Management
The goal is to manage risk and mitigate loss.

We did so. If left alone the original trade would have lost $620.

Adding the other side and rolling reduced it to $375.

What if?
No What if!
Further Backtesting

Further Backtesting