Advanced Options Strategies

SAMPLE INVESTING PLANS
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Spreads and other multiple-leg option strategies can entail substantial transaction costs, including multiple commissions, which may impact any potential return. These are advanced option strategies and often involve greater risk, and more complex risk, than basic options trades.

Carefully consider the investment objectives, risks, charges and expenses of any exchange traded fund (ETF) before investing. To obtain a prospectus containing this and other important information, contact your broker. Please read the prospectus carefully before investing.

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Objective

To use a market-neutral strategy that is designed to make money through time decay and falling implied volatility.

Watch List Criteria

- Liquid stocks or ETFs
- Narrow bid/ask spreads (penny-wide spreads preferred)

Entry Rules

Expiration Selection
- 20 to 50 days

Strike Selection
- If possible, sell options with a 20% – 30% probability of expiring
- If possible, sell a put spread at or below support
- Sell a call spread at or above resistance
- Look for a minimum ROI (return on investment) of 30%
  - ROI = risk/reward

Money Management

Position Size
- Position up to 5% per strategy per expiration cycle
  - Formula: Portfolio risk / trade risk = # of contracts
  - Position Size: Position size small and layer (scale) in through the life of the expiration cycle starting at 50 days out, then adding as time moves forward
Exit Rules

Trade Management
Within 10 days of expiration if the stock breaks support
- Scale out of the position by exiting 1/3 or 1/2, then continue scaling out
- Exit the full position
- Be patient and stay in the trade

Exit Rules
- Exit 4–10 days before expiration
- Anytime 80% of your potential profit is reached

Routine
This strategy focuses on trading probabilities and needs time to work. It’s not a strategy that needs to be watched daily. Make the trade and watch it closer as it approaches the 10-day window mentioned in the exit rules.

*Carefully consider the impact of commissions and fees on any option strategy, including calculations on potential return on investment (ROI).*
Butterfly Sample Investing Plan
ADVANCED OPTIONS STRATEGIES

▲ Objective

To use the butterfly strategy as a stand-alone or protection strategy. As a stand-alone strategy, it is a market-neutral strategy. As a protective strategy, it can serve as a cheap way to protect an option inventory.

▲ Watch List Criteria

• Liquid stocks or ETFs
• Narrow bid/ask spreads (penny-wide spreads preferred)

▲ Entry Rules

Expiration Selection
• 20 to 50 days

Strike Selection
• For stand-alone: Select the strike that you expect the stock or ETF to be trading close to expiration
  – The debit should not exceed 40% of the strike width
  – Consider comparing similar products and buying the cheaper butterfly
• For protection: Select the strikes where you don’t want the stock to end up at expiration

▲ Money Management

Stand-Alone Strategy
• Formula: Portfolio risk / trade risk = # of contracts
• Position Size: Position size small and layer (scale) in through the life of the expiration cycle starting at 50 days out, then adding as time moves forward

Protective Strategy
• Up to 1% position sizing
Exit Rules

Trade Management
- Sell with a 50% max gain
- Exit Individual Verticals:
  - Short Vertical = Exit when spread is worth 10% of the value of the option chain
  - Long Vertical = Exit when spread is worth 90% of the value of the option chain

Exit Rules
- Exit 4 – 10 days before expiration
- Consider exiting the vertical with the greatest risk

Routine
This strategy focuses on time decay and needs time to work. Watch the verticals that make up the butterfly and exit when appropriate. Take action 4 – 10 days before expiration.

*Carefully consider the impact of commissions and fees on any option strategy, including calculations on potential return on investment (ROI).
Calendar Spreads Sample Investing Plan
ADVANCED OPTIONS STRATEGIES

▲ Objective
To make money on time decay and rising implied volatility while buying premium.

▲ Watch List Criteria
• Liquid stocks or ETFs
• Narrow bid/ask spreads (penny-wide spreads preferred)
• Best if implied volatility is relatively low

▲ Entry Rules
Expiry Selection
• Sell 20 to 50 days
• Buy 50 to 150 days

Strike Selection
• When bearish, buy an OTM put calendar where the short strike has a 30-40% probability ITM
• When bullish, buy an OTM call calendar where the short strike has a 30-40% probability ITM
• If you have no bias choose a strike near ATM

Roll Values
• Using the Theoretical Price calculator, find the potential roll value using perfect price and expiration Saturday
• Buy the cheapest per month calendar
• Look for a 100% return on the calendar to enter

▲ Money Management
Position Size
• Position up to 5% per strategy per expiration cycle
  - Formula: portfolio risk / trade risk = # of contracts
  - Position Size: Position size small and layer (scale) in through the life of the expiration cycle
Exit Rules

Trade Management
When managing, consider scaling out 1/3 to 1/2 of the contracts at a time when:

- Stock is at your strike 10 – 20 days before expiration
- Scale out on days when the stock moves toward your short strike
- Extrinsic value of short option of the short option is 10% of the strike width in the option chain.

Exit Rules
- Exit 4 – 10 days before expiration

Routine
Calendar spreads need time to work as time decays. Be sure to check your position approximately 20 days before expiration. Pay attention to where price is relative to your strikes and make adjustments as the rules state above.

*Carefully consider the impact of commissions and fees on any option strategy, including calculations on potential return on investment (ROI).
Objective
To make money on time decay and rising implied volatility while buying premium. The diagonal is a combination of a short vertical and a calendar and takes advantage of the pros for each.

Watch List Criteria
• Liquid stocks or ETFs
• Narrow bid/ask spreads (penny-wide spreads preferred)
• Best if implied volatility is relatively low

Entry Rules
Expiration Selection
• Sell 20 to 50 days
• Buy 50 to 150 days

Strike Selection
• Bullish: Enter the diagonal put spread by selling the front month at or below support and buying the back month one or two strikes below the short strike
• Bearish: Enter the diagonal call spread by selling the front month at or above resistance and buying the back month one or two strikes above the short strike

Roll Values
• Using the Theoretical Price calculator, find the potential roll value using perfect price and expiration Saturday
• Buy the cheapest per month calendar
• Look for a 100% return on the calendar to enter

Money Management

Position Size
• Position up to 5% per strategy per expiration cycle
  • Formula: Portfolio risk / trade risk = # of contracts
  • Position Size: Position size small and layer (scale) in through the life of the expiration cycle
  • Diagonal Max Loss = Spread width + debit
Exit Rules

Trade Management
Manage the calendar part of the diagonal, then the vertical spread

• When managing, consider scaling out 1/3 to ½ of the contracts at a time
• Stock is at your strike 10 – 20 days before expiration
• Scale out on days when the stock moves toward your short strike
• Extrinsic value of short option of the short option is 10% of the strike width in the option chain

Exit Rules
• Exit or roll 4 – 10 days before expiration

Vertical
Once the diagonal becomes a vertical

• Exit 4 – 10 days before expiration
• Anytime 80% of your potential profit is reached

Routine
Calendar spreads need time to work as time decays. Be sure to check your position approximately 20 days before expiration. Pay attention to where price is relative to your strikes and make adjustments as the rules state above.

*Carefully consider the impact of commissions and fees on any option strategy, including calculations on potential return on investment (ROI).*