Pit Trader's Diary: Income-generating Secrets Wall Street Doesn't Want You to Know

USE "IRON CONDOR OPTIONS TRADES" TO MAKE MONEY WHETHER THE MARKET GOES UP OR DOWN.

David LeVine

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ABOUT

David LeVine has been actively trading stocks since 1985, and Options since 2003. A registered Investment Advisor, he passed the NASD Series 65 exam and managed an Options portfolio for a New York Trading firm.

David studied Options trading under three Options pit traders with more than 60 years of combined Options trading experience. The book title comes from copious notes gathered from the trading strategies and techniques of these expert traders.

David combined his expertise in systems analysis and website building to create Uncle Bobs Money, a website that brings revolutionary tools for finding, monitoring and finessing income-generating Options trades to maximal (best-possible) profits.

This book includes all the trading ideas and guidelines you need to successfully and profitably trade Options.

By using the free Options software provided by most brokers, you can implement and successfully trade with these strategies.

Screenshots from UncleBobsMoney.com are for illustration purposes only.
INTRODUCTION:
THE INCOME-GENERATING SECRETS THAT WALL STREET DOESN'T WANT YOU TO KNOW

Most investors have at least some assets tied up in the stock market. Too many of them let their mutual funds or brokers handle their accounts; they simply check their statements quarterly to see how much money they made or lost. As a result, most are sorely disappointed with their returns over the past few years.

So it isn't surprising that more people are taking a personal interest in learning how financial markets work and becoming pro-active in making some or all of their own financial decisions. This trend is being driven by online trading companies that make it easy and inexpensive to trade in various financial markets.

But easy-to-trade and easy-to-profit are rarely two sides of the same coin. Trading on tips or on stock movements is usually no better than gambling in Vegas: the odds are steeply stacked against the player. Frequently, individual traders lose. But for every loser there is a winner – usually a savvy financial trading firm using clever ways to move the odds slightly in the trader's favor – techniques the average trader doesn't know about. They follow a consistent conservative strategy and leverage tools and techniques developed over many years which are simply not in the hands of the individual trader.

One of the ways that professional trading firms make consistent profits, regardless of the market's direction, is through Options trading. By structuring and timing Options trades with non-directional strategies, professional traders consistently make money in up and down markets.

Are these techniques destined to remain the sole secret of the financial trading firms? Fortunately, the answer is "No!" – thanks to the book in your hands.

One of the most popular non-directional Options trading techniques
utilized by the savvy Wall Street trading firms are Condor Options spreads. The concept of Condor spreads is similar to how an insurance company issues an insurance policy.

Insurance companies know statistically the probability of a loss in the near future, and they charge a premium that allows them to make a profit for the risk during that time period. The odds are always in the favor of the insurance company.

A Condor spread is based on the same strategy. You use available statistics to determine the probability of stock or index price movements in the near future, and you collect premiums by making trades on Options positions that have a very low probability of loss during that time period. You take positions where the odds are deeply in your favor. And of course, you always have a backup plan if things go wrong.

An Iron Condor – the secret trading technique I'll share with you in this book – allows you to double your return without doubling your risk.

How popular is this strategy with Wall Street elites?

Warren Buffet makes BILLIONS of dollars most years using this Options strategy. This is the primary Options strategy Berkshire Hathaway utilizes; just check their annual 10-K filings which are available for free, and search for “equity index put Option contracts.”

**You are holding the insider’s secrets**

This book will teach you the secret Options trading strategy that Wall Street wizards use every day to put the odds in their favor. I will explain this strategy in simple straightforward terms, so you don't need a finance degree to understand it.

The step-by-step instructions in this book cover everything you need to trade Options successfully, including: which market conditions to monitor before entering into a trade, when to start, the rules for
exiting a position early, and how to do it without spending your every waking hour in front of a computer.

This book is carefully focused on essential information, so you can jump forward into trading as quickly as possible. By the end, you’ll understand how to trade Iron Condors. This book can then serve as a handy reference, with all the key factors and tips you’ll need to trade wisely.
Pit Trader's Diary:
Use “Iron Condor Options Trades” to make money whether the Market goes up or down.

(1) FOUNDATIONS OF OPTIONS TRADING

What is an Option?
The practice of Options has been around for as long two parties have existed to make a deal. (Millennia.)

An Option is any contract where you pay a small amount of money now, in anticipation of a larger amount of money or benefit at a specified future date.

Options are similar to insurance policies:
You pay a small premium for annual theft insurance on your car. If your car is stolen during the year, you get reimbursed for the value of the car.

If nothing happens to your car, you lose the premium payment.
Options are different than stocks.

Stocks have ONE factor: PRICE.
Options have THREE factors: Position, Price and Time.

To explain: Stocks have the singular factor of price. The stock price can go up or down; you try to guess in which direction. *Figure 1.1.*
(To simplify the comparison to Options trading, we’ll ignore dividends and earnings announcements.)

*Figure 1.1. Source: Pit Trader’s Diary*

<table>
<thead>
<tr>
<th>Current price example:</th>
<th>$93</th>
<th>$94</th>
<th>$95</th>
<th>$96</th>
<th>$97</th>
<th>$98</th>
<th>$99</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAPL: <strong>100.00</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Trading Stocks: One choice**

BUY or Sell at the current price.

(We are simplifying and leaving out special order types like “limit orders” to make the comparison to options more clear.)
Options have THREE factors: Position, Price and Time.
POSITION: Options have different strike prices that enable different types of strategies and risk levels. (“Strike” is the Options position that we buy or sell.)
PRICE: Options prices vary depending on the Strike and Time remaining.
TIME: Options have an expiration date.

If you ever bought an insurance policy, understanding Options is easy. Options are similar in concept to insurance policies, in that both have the factors of Position, Price and Time. Figure 1.2, and Figure 1.3.

**Figure 1.2. Source: Pit Trader's Diary**

<table>
<thead>
<tr>
<th>CALLS</th>
<th>PUTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10.00</td>
<td>$93</td>
</tr>
<tr>
<td>$9.00</td>
<td>$94</td>
</tr>
<tr>
<td>$8.00</td>
<td>$95</td>
</tr>
<tr>
<td>$7.00</td>
<td>$96</td>
</tr>
<tr>
<td>$6.00</td>
<td>$97</td>
</tr>
<tr>
<td>$5.00</td>
<td>$98</td>
</tr>
<tr>
<td>$4.00</td>
<td>$99</td>
</tr>
</tbody>
</table>

**Options have THREE factors: Position, Price and Time.**

March Expiration
February Expiration
January Expiration

Trading Options: Three choices
(Trading options looks complex, but it is similar to buying an insurance policy.)

**TIME:** Select when the options will expire.

**PRICE:** Buy or Sell the option based on the option's price. Buy Put options if you think the price will drop. Buy Call options if you think the price will rise.

**POSITION:** Select the strike.

*EXAMPLE:* Bob owns 100 shares of AAPL. He wants to protect himself against a price drop. Bob buys 1 Put option at the 95 Strike (position), that will expire in January (time) and pays $0.90 per share (price). Bob's cost = $90.00. He is now protected if AAPL drops below $95 between now and the expiration date.

Notice that the Options prices have both CALLS (if you think the price will rise) and PUTS (if you think the price will drop).

**Figure 1.2.**

This is the trump card that Options have over insurance policies, because with Options you can chose to profit in both directions.
PUTS, like insurance policies, let you profit when the price goes DOWN.

CALLS let you profit when the price goes UP.

For now, let’s continue with the basic Options concepts so we can dive into our first Condor trade.

The three factors that Options have in common with insurance policies: Position, Price and Time. Figure 1.3.
Pit Trader’s Diary:
Use “Iron Condor Options Trades” to make money whether the Market goes up or down.

**Figure 1.3. Source: Pit Trader’s Diary**

<table>
<thead>
<tr>
<th>OPTIONS</th>
<th>common factors</th>
<th>INSURANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Position is the STRIKE you select.</strong> <strong>Example:</strong> Bob owns 100 shares of AAPL with a stock price of $100, and he decides how much price protection he is willing to pay if the price of AAPL drops.</td>
<td><strong>Position is the VALUE you want to insure.</strong> <strong>Example:</strong> Bob owns a car, and he decides how much price protection he is willing to pay if his car is stolen.</td>
<td><strong>A</strong> To replace with a new car, the insurance costs $400. <strong>B</strong> To receive the market value of the car, the insurance costs $340.</td>
</tr>
<tr>
<td><img src="image1.png" alt="Image" /></td>
<td><img src="image2.png" alt="Image" /></td>
<td><img src="image3.png" alt="Image" /></td>
</tr>
<tr>
<td><strong>[A] For a $95 strike, the Option costs $90. (Bob is protected if AAPL price drops below $95)</strong></td>
<td><strong>[B] For a $94 strike, the Option costs $60. (Bob is protected if AAPL price drops below $94)</strong></td>
<td><strong>[A]</strong> To replace with a new car, the insurance costs $400. <strong>[B]</strong> To receive the market value of the car, the insurance costs $340.</td>
</tr>
<tr>
<td><img src="image4.png" alt="Image" /></td>
<td><img src="image5.png" alt="Image" /></td>
<td><img src="image6.png" alt="Image" /></td>
</tr>
<tr>
<td><img src="image7.png" alt="Image" /></td>
<td><img src="image8.png" alt="Image" /></td>
<td><img src="image9.png" alt="Image" /></td>
</tr>
<tr>
<td><strong>Price is how much the Option costs. (see the prices above in the “position” example)</strong></td>
<td><strong>Price is how much the insurance policy costs. (see example above)</strong></td>
<td><img src="image10.png" alt="Image" /></td>
</tr>
<tr>
<td><img src="image11.png" alt="Image" /></td>
<td><img src="image12.png" alt="Image" /></td>
<td><img src="image13.png" alt="Image" /></td>
</tr>
<tr>
<td><strong>Time is the expiration date.</strong> <strong>Example:</strong> Bob selects which expiration date he wants. The Option will expire and become worthless at expiration. (Except Options that are “In The Money,” which we’ll discuss later.)</td>
<td><strong>Time is when the policy expires.</strong> <strong>Example:</strong> Bob’s auto insurance is an annual policy, which will expire and become worthless on the expiration date.</td>
<td><img src="image14.png" alt="Image" /></td>
</tr>
<tr>
<td><img src="image15.png" alt="Image" /></td>
<td><img src="image16.png" alt="Image" /></td>
<td><img src="image17.png" alt="Image" /></td>
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<tr>
<td><img src="image18.png" alt="Image" /></td>
<td><img src="image19.png" alt="Image" /></td>
<td><img src="image20.png" alt="Image" /></td>
</tr>
<tr>
<td><strong>Position is the VALUE you want to insure.</strong> <strong>Example:</strong> Bob owns a car, and he decides how much price protection he is willing to pay if his car is stolen.</td>
<td><img src="image21.png" alt="Image" /></td>
<td><img src="image22.png" alt="Image" /></td>
</tr>
<tr>
<td><img src="image23.png" alt="Image" /></td>
<td><img src="image24.png" alt="Image" /></td>
<td><img src="image25.png" alt="Image" /></td>
</tr>
<tr>
<td><strong>A</strong> To replace with a new car, the insurance costs $400. <strong>B</strong> To receive the market value of the car, the insurance costs $340.</td>
<td><img src="image26.png" alt="Image" /></td>
<td><img src="image27.png" alt="Image" /></td>
</tr>
<tr>
<td><img src="image28.png" alt="Image" /></td>
<td><img src="image29.png" alt="Image" /></td>
<td><img src="image30.png" alt="Image" /></td>
</tr>
</tbody>
</table>
12 Key Options Terms – Foundations to Trade

[1] Call Option
A Call Option gives the buyer the right to PURCHASE the underlying security at the strike price, until the expiration date.

Example: If AAPL stock is currently $100 per share, I can purchase a Call Option at the $105 strike that expires 2 months from now. If, for example, the price of AAPL goes up to $110, I exercise my Option to purchase the AAPL shares for only $105, then resell them on the open market for $110, making a profit of $5 per share. (In reality, you would do it the easy way by selling your Call Options and taking the profit in one easy trade, rather than go through the process of exercising the Option, then buying and selling the stock.)

[2] Condor
A Condor is when you trade one side, either a Put or a Call spread. If you trade both the Call and the Put side, that is an Iron Condor. This valuable trading secret is disclosed in this book. (The names “Condor” and “Iron Condor” are nicknames used fairly loosely, so don’t get ruffled if someone uses the terms a bit differently.)

[3] Contract
Options are bought and sold as "contracts."
1 Options contract = 100 shares of stock. Drill this concept in because otherwise any mistake could be magnified a hundred-fold!

1 Options contract = 100 shares of stock

(Some symbols also offer "mini" Options which represent only 10 shares of stock.)
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**Options prices are listed as price PER SHARE. To calculate the price for ONE contract, you need to multiply the price per share TIMES 100.**

*Example:* If AAPL stock is currently $100 per share, you can purchase a Call Option at the $105 strike that expires 2 months from now. The cost will be $0.60 per share:

$0.60 per share * 100 shares = $60 for 1 contract.

**[4] CREDIT**
The credit is the amount of money you receive when entering a Condor spread, or when selling an Option.

**[5] DEBIT**
The debit is the amount of money you pay out to close a Condor spread early, or when buying an Option.

**[6] DELTA**
Delta describes how much the price of an Option will change when the underlying price changes by $1.00.

*Example:* AAPL stock is currently $100 per share. The Call Option at the $105 strike that expires 2 months from now has a price of $0.60 per share, and there is a DELTA of $0.08. Therefore: If the price of AAPL goes up $1, to $101 per share, the price of the Option will go up to $0.68.

**[7] EXPIRATION**
The expiration date is the date that the Option and the right to exercise cease to exist. Most Options have MONTHLY expiration dates, which is generally the third Friday of the expiration month. Some Options also have WEEKLY and QUARTERLY expirations, which allow for more trading flexibility.
When you BUY an Option, it is referred to as the LONG position.

[9] Put Option
A Put Option gives the buyer the right to SELL the underlying security at the strike price, until the expiration date.

Example: If AAPL stock is currently $100 per share, you can purchase a Put Option at the $95 strike that expires 2 months from now. If, for example, the price of AAPL goes down to $90, you can exercise your Option to SELL the AAPL shares for the higher price of $95, then buy them on the open market for only $90 to cover the Options just sold, making a profit of $5 per share. (In reality, you would do it the easy way by selling your Put Options and taking the profit in one easy trade, rather than go through the process of exercising the Option, then selling and buying back the stock.)

[# 1 Compared to # 9] Put vs. Call Options:
If you buy a Put Option, you make money if the underlying price goes DOWN – i.e. if the underlying price goes down far enough and fast enough that your Put Option becomes more valuable than when you purchased it.

If you sell a Put Option, you make money if the underlying price does NOT go down to your strike. The market can go down a little, stay flat or go up – and you will make money.

If you buy a Call Option, you make money if the underlying price goes UP – i.e. if the underlying price goes up far enough and fast enough that your Call Option becomes more valuable than when you purchased it.

If you sell a Call Option, you make money if the underlying price does not go up to your strike. The market can go up a little, stay flat or go down – and you will make money.
When you SELL an Option, it is referred to as the SHORT position.

"Spread" is the price difference between the Option you sell and the Option you buy.

[12] Strike
"Strike" is the Option position that you buy or sell. Strikes are based on price. On each strike available, you can buy a Put, sell a Put, and/or buy a Call, sell a Call. Figure 1.4.

Example: If AAPL stock is currently $100 per share, there will be Options strikes in $1 increments above and below the current price.
The further away from the current price, typically less strikes are available.
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We’re keeping the Options terms here to a minimum so we can dive straight into the Condor Options strategy. Later, as we move through the practical steps of making trades, we will introduce a few more advanced terms.

For now, you now have a good foundation of key Options terms, so let’s get some essential Options concepts under our belt. Then we’ll learn how to profit from the Iron Condor Options strategy.
Essential Options Concepts

Aren’t Options Risky?
Options trading seems to be almost a dirty word in the minds of some traders. They've probably heard umpteen tales of people's life savings going up in smoke after getting into Options trading. Yet invariable, people who lose big money trading Options are under-informed, trade without a plan, or ignore their trading plan – all preventable mistakes.

Options pack real power, and with that power comes risk. By way of analogy, a bicycle may get you where you want to go, but a motorcycle, with all its horsepower and speed, will get you there far quicker. Which is the safer method? Surely the one with less power. Yet by exercising proper precautions in operating the motorcycle, the risk is greatly diminished – e.g. you obey all traffic laws, wear a helmet, stay vigilant and aware, and even complete a motorcycle-safety course. You're far more likely to get to your destination unscathed than the guy who hopped aboard a Harley for the first time because it looked like a blast.

The same premise applies to Options trading. We want to handle this powerful investment tool with the care it calls for, and within limits that keep any risks well-contained. That means trading with a time-proven trading plan, entering only good trades that meet all the "trading checklists,” and sticking with a plan to exit early when the adjustment point or profit point is reached.

The Key to Profits
The Condor Options strategy is based on statistics. If you select good trades, according to proven guidelines, the odds will always be in your favor.

The key to being profitable is to diversify with many small trades, and remove positions when they hit the adjustment point or profit point.

If you are disciplined and follow the rules, you will keep your losses to a minimum.
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Unfortunately, many traders get greedy, or hope the market will turn around, or leave their positions too long to squeeze out more profit.

In short, when traders lose, it's because they didn't follow their trading plan.

The statistics make it simple.

Casinos make money because the statistics are in their favor, and they stick to the rules.

Insurance companies make money because the statistics are in their favor, and they stick to the rules.

Disciplined Condor Traders make money because the statistics are in their favor, and they stick to the rules.

Follow the trade plan, and let the statistics make you money.
(2) WHAT IS AN IRON CONDOR?

Condor trades are really very simple:

You sell an Option, buy a different Option and collect a credit immediately.

SAMPLE CONDOR TRADE:
GOOG (Google stock price: $595.04)
Expiration: 25 days from now
SELL 1 contract | $555 strike | PUT
BUY 1 contract | $545 strike | PUT
Limit price: $0.60
(This equals $60 per contract.
1 Options contract = 100 shares)

This trade results in an immediate CREDIT of $60 placed into the trading account.
After 25 days, the Options will expire and you keep the $60 profit. Figure 2.1.

No risk, no reward.
The risk we took to make $60 in only 25 days was a theoretical maximum loss of $1,000. $60 may not sound like a lot of money to you, but that type of return is really hard to beat when we frame it differently:

Amazing 6% return in only 25 days!

Yes, that is an amazing return. But don’t pour your life savings into Options trading with a dream of big profits that never stop.

The risk to the $1,000 capital was real, and you should only trade Options with money you can afford to lose.
In reality, Options trading is not an “all or nothing” investment. The full loss would occur only if the price of Google was below $545 at expiration.

In later chapters, you'll learn adjustment techniques to remove trades early if things go wrong. This keeps your true risk in actual trading extremely small.

The reward is relative to the risk taken.  
Higher risk = higher reward.

In Options trading, there is always a risk/return relationship. The more risk you're willing to take, the higher the potential reward. Yet remember this is a statistics game, and whatever risk you take is real.

Less risk means less losses.  
More risk means more losses.
**Figure 2.1 guide:**
Figure 2.1 shows different Condor spread choices, comparing the price and yield of various possible trades. The dark blue highlighted row is the example used above. By deciding to take less risk, your return is $46, instead of $60. If you chose to be very risky, your return is $138.

**Chart Columns:**
**SHORT:** This is the strike that you SELL. (The 555 PUT Option in the example above)

**STRATEGY:** "HP" means "High Probability Condor." Condor spreads are classified based on risk. “High Probability” refers to a high probability of profit (i.e. the odds are significantly in your favor).

**DELTA:** This is the Delta of the Short Strike. We use this number as a gauge to determine the classification and risk level of the trade.

**SPREAD:** This is the price difference between the Option you sell and the Option you buy.

**MID PRICE:** This is the best net credit price per share you can receive if you made this trade right now. The MID price is the middle point between the BID and ASK prices. Start with this price when you place a trade. Usually, you will have to reduce your price slightly to get filled. The fill price depends on supply and demand for those strikes.

**YIELD:** This is the maximum percentage return on capital.

**CHECKED SELECT BOX:** The graph on the right side shows the profit/loss graph profile for the selected trade. (The graph will make more sense later in the book.)
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Figure 2.1. Source: UncleBobsMoney.com Trade Finder screen
Condor Trade Mechanics – Simple 'n Easy Spread Order

Now that we understand the basics of Condor trades, let's look at some important trade mechanics.

Condor Options spreads are among the easiest Options spreads to understand and to trade. It's quite easy to enter and exit Condor spreads, because when you place an order to enter or exit a trade, you make it as one simple "spread" order with a single price. You don’t want to place individual orders for each contract; that would be complicated and difficult to manage.

The Wrong Way
Trading individual strikes to create a spread is called “legging in.” By entering the positions separately you would first have to buy the Long strike – which could cost a lot of money – and then sell the Short strike. The pricing on each strike can vary, so you never know what kind of final position you’ll get, which adds risk to your trade entry.

Additionally, you risk underlying price movements while trying to make the trades. Because this creates additional risk and additional work, you always want to avoid "legging in."

The Right Way
Instead, to make it easy, enter a SPREAD ORDER with one price.

Spread Limit Price: $0.60 Credit
This means you'll receive $0.60 per share for this spread trade.
(1 Options contract = 100 shares, so in this case your income would be $60, minus broker commissions.)

Now for some great news: When you enter a Condor spread, you get paid immediately. As long as the underlying stock price stays away from your spread, when these Options expire (25 days in the example above) you keep the $60 as profit.

To make this trade, the Broker will hold $1,000 in maintenance in
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your account. The maintenance money stays in your account; you cannot spend or trade against it until these Options positions are closed.

Final result when this trade is closed: 6% profit in just 25 days.

Diner Example
A SPREAD ORDER is like getting the complete meal special at a local diner.

Instead of ordering the hamburger, fries and cola à la carte, you order the "combo meal" for one low price.

In Options trading, a SPREAD ORDER is a "combo" of Options ordered at one low price.
**Spread Width**

The spread width is the dollar price difference between the Option you SELL and the Option you BUY.

*Example:*

If I SELL the GOOG $495 Put Strike, and BUY the GOOG $485 Put Strike, there is a $10 difference between the strikes. This is called a “10 point spread.”

Spread widths on a Condor can be as small as $0.50, $1, or $2.50 (some stocks and Mini-Indexes), or more typically $5, $10, or $25 on larger indexes and stocks.

**Practical tips on spread widths:**

- Wide Spreads of $10, $25 or more tend to have slightly lower yields than narrow spreads.
- Wide Spreads have larger maintenance requirements, which reduce your commission cost. If you trade one $10 spread, instead of two $5 spreads, you cut your per-contract commission cost in half.
- Narrow Spreads of $5 or less tend to have higher yields than wider spreads.
- Narrow Spreads have smaller maintenance requirements, so you can make trades with less risk.

**Why you shouldn’t trade Condors with small spreads:**

$1 spreads on the Mini-Indexes look appealing to new traders because the maintenance amount on a $1 spread is only $100. But commission costs can be a significant factor. *Figure 2.2.*

Mini-Indexes like the SPY (Mini S&P 500) and IWM (Mini Russell 2000) are ETF’s – “Exchange Traded Funds” – that can be bought and sold like stocks. They are called “Mini’s” because they are valued around 1/10th of the price of the Index.

For example, if the Russell 2000 Index is valued at $1,100, then the IWM will be priced around $110. The Options on the Mini-Indexes are very popular.
Use “Iron Condor Options Trades” to make money whether the Market goes up or down.

Figure 2.2. Source: UncleBobsMoney.com Trade Finder screen
For example:
If we make a $1 spread on the IWM (Mini Russell 2000)
  • Sell IWM 121 Call Strike ($0.10 per contract, 25 days until expiration, 0.06 Delta of the Short Strike)
  • Buy IWM 122 Call Strike ($0.06 per contract)
  • Net Credit = $0.04 per share.
    o This equals $4.00 per contract.
      (1 Options contract = 100 shares)
    o This equals a 4% return on the maintenance money
      ($4 profit on $100 at risk).

4% profit sounds great, but when you factor in the commission cost, the trade is no longer attractive. It may even incur a guaranteed loss.

Let’s look at the actual commission costs from a few brokers to make this point clear:

Interactive Brokers Commission Cost:ii
$1.40 commission to enter trade
$1.40 commission to exit trade early
Total Commission: $2.80
==> Reduced profit by over half.

TD Ameritrade Commission cost:iii
$11.49 commission to enter trade
$11.49 commission to exit trade early
Total Commission: $22.98
==> Net LOSS to ENTER the trade because of the commission cost. (At TD Ameritrade/thinkorswim, UncleBobsMoney.com can help arrange for a special per contract deal with no base fee, which helps for small trades like these.)

Options House Commission cost:iv
$12.80 commission to enter trade
$12.80 commission to exit trade early
Total Commission: $25.60
==> Net LOSS to ENTER the trade because of the commission cost.
The Pit Trader’s Tip:
Use $5, $10 or $25 spreads to minimize the commission cost relative to the income.

Calculating spread prices:
You can use an Options tool to show the calculated spread prices, like the one pictured above in Figure 2.2., or you can create a spread orders by hand using free websites like Google Finance Figure 2.3., Yahoo Finance and CBOE, or in your Brokerage software Figure 2.4. (Your Brokerage software may have a filter for Condors or vertical spreads.)
### Figure 2.3: Source: Google Finance screen shot

#### Select symbol

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<tr>
<th>Calls</th>
<th>Price</th>
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<th>Volume</th>
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#### Select expiration date

- View options by expiration: Aug 22, 2014

#### Select Put strikes

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#### Select Call strikes

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</table>

#### Calculate the MID price on each strike.

85 Strike, MID price calculation:
- (a) $0.21 - $0.15 = 0.06
- (b) 0.06/2 = 0.03
- (c) $0.15 = $0.15

85 Strike, MID price = 0.06

89 Strike, MID price = 0.03

90 Strike, MID price = 0.15

72 Strike, MID price = 0.06

#### Calculate the Spread price based on the MID price of each strike.

90 Strike minus 85 Strike = 0.54 - 0.18 = 0.36 Spread Price

90 Strike minus 85 Strike = Spread MID price.

$0.54 - $0.18 = $0.36 Spread Price
Pit Trader's Diary:
Use “Iron Condor Options Trades” to make money whether the Market goes up or down.

Figure 2.4. Source: thinkorswim by TD Ameritrade, Analyze tab
CONDOR VS. IRON CONDOR

The terms “Condor” and “Iron Condor” are nicknames for what are technically called “vertical Options spreads.” As nicknames, the terms Condor and Iron Condor are used loosely in the Options industry.

We refer to a single spread, either a Put spread or a Call spread as a CONDOR.

If you trade a Put spread and Call spread at the same time, we call it an IRON CONDOR.

Iron Condors have a special advantage in that the maintenance margin is held on just one side of the trade. (We will explain this in detail later on.)
(3) HOW WE MAKE MONEY

By doing what is called “selling premium,” you make money whether the market goes up, down or sideways. This “non-directional” strategy is what makes Condor spreads so powerful. We rely on a 90% to 95% probability of success that the market will stay within a normal range.

As long as the market trades within a statistically normal range, you make money 2 ways:

END OF SAMPLE

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1 Berkshire Hathaway sells their Options “naked” which means they have unlimited exposure for loss – which they can afford to risk. We trade the same strategy, but we trade it as a Condor Spread, which limits our potential loss. See the Annual Berkshire Hathaway 10-K filings which are available for free, and search for “equity index put Option contracts.”


3 https://www.tdameritrade.com/pricing.page#Options $9.99 + $0.75 per contract

4 http://www.optionshouse.com/rates/ $12.50 + $0.15 per contract (up to 10 contract spreads)