

Option Income Strategies Overview/Survey

Raleigh-Durham Traders Meetup

1/11/2017

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Note: I have included very brief excerpts of summaries and charts of various strategies from previously published, publicly available materials of the original authors, giving proper credit to them. These brief excerpts are intended just to give the flavor of different strategies and are definitely not intended to, nor are they sufficient to, teach or use these methods. For those purposes, please contact the original author or publisher. I believe that so doing is proper, and will be welcomed by authors, but if any system developer or publisher objects, please contact me at dbrady@pobox.com and I will attempt to accommodate them via a correction.

Strategies

- John Locke: M3
- Dan Harvey: Road Trip
- Jim Riggio: Kevlar
- Andrew Falde: Net-Zero-Delta (50-40-20)
- Amy Meissner (orig. Dan Harvey): Weirdor
- Matt Williamson: FruitFly
- John Locke: Bearish Butterfly / M9
- John Locke: Super Simple Spreads
- Bruno Voisin: Rhino

Free Learning Venues: Capital Discussions

- Roundtable moderated by Tom Nunamaker
- Market Muse
- Trading Group 2
- Library of Prior Videos (PDF's are \$10 / month)
- Big Draws are Dan Harvey, Jim Riggio, others
- <https://capitaldiscussions.com/>

Free Learning Venues: SMB Options Tribe

- Free only if watched Live
- Big Draws: John Locke, Andrew Falde, others
- Huge Library of Prior Talks (\$30 / month but you can have free trial)
- SMB also offers Courses and Mentoring
- <http://optionstribes.com/>

Free Learning Venues: John Locke Weekly Update

- Free only if watched Live, (also free with 2 week delay on YouTube)
- He goes over his major systems trade status every Monday and you can ask questions
- Huge Library of Prior Talks (\$30 / month but you can have free trial)
- SMB also offers Courses and Mentoring

Key Common Concepts

- Vertical Spreads
- Credit Spread and Debit Spread
- Butterfly

Brokers

- Think Or Swim (TD Ameritrade) has great analysis and backtesting platform
- Interactive Brokers has lowest rates, especially for Futures Options
- Others

Options Platforms

- ThinkOrSwim is free!
- Current leader among paid products (but \$100/month): OptionVue
- Runner up: OptionNetExplorer – much faster, cheaper, no futures options yet.
- Special hidden offers exist for both – ask on forums!
- Others

Simplified Terminology for Beginners

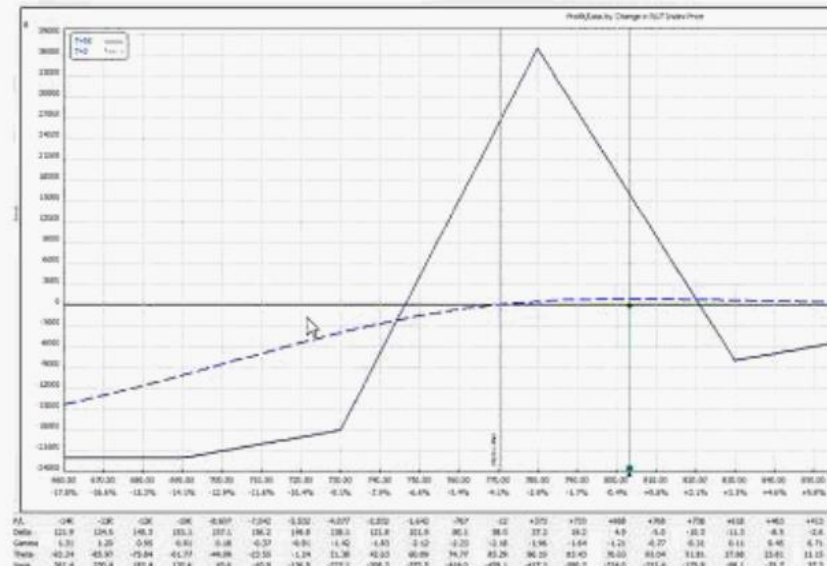
- Butterfly – two stacked vertical spreads
- Theta – ongoing dollar gain per day
- Negative Delta – gain if the market falls
- Negative Vega – gain if volatility falls

Locke M3

ENTRY GUIDELINES

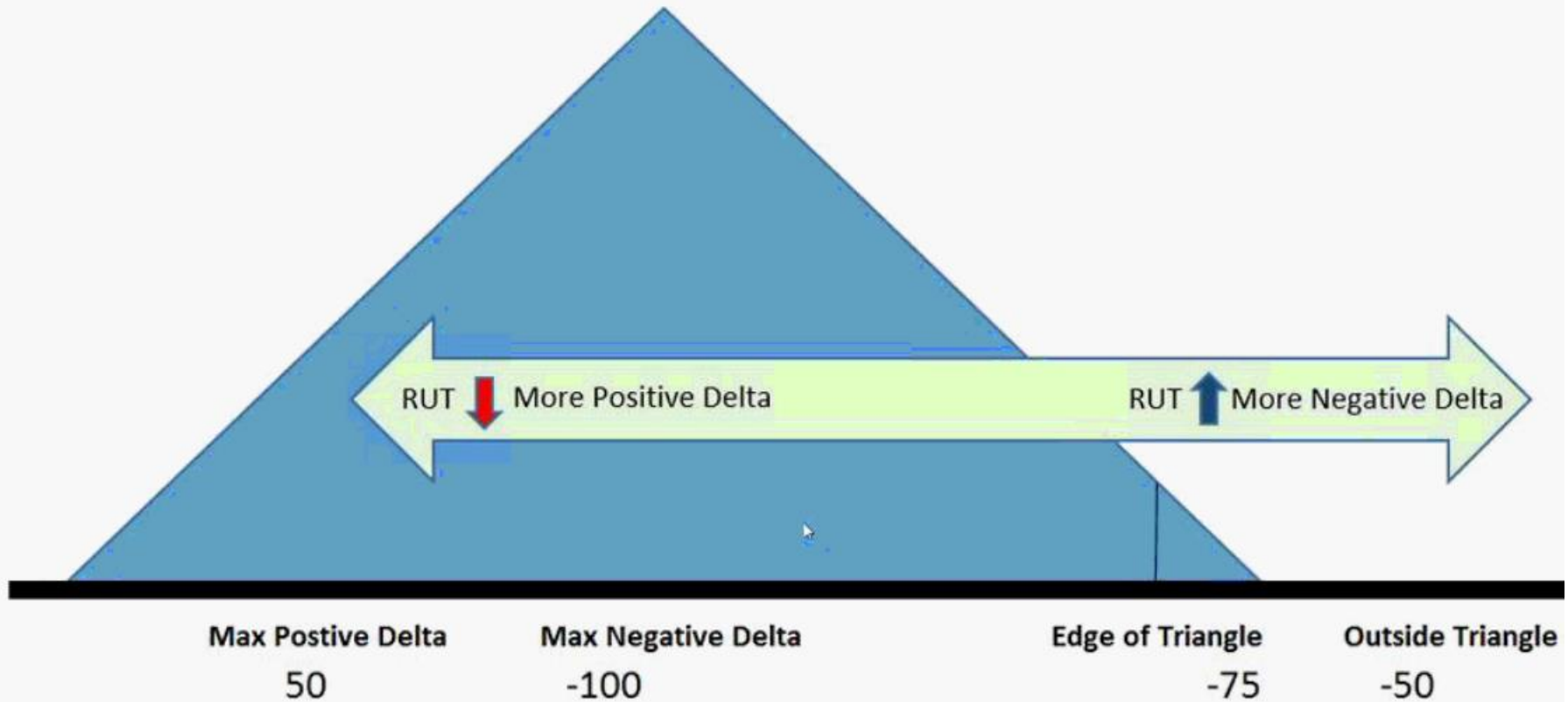
- Ideal Entry
 - DTE (Days to Expiration)
 - 56 Days
 - Can be entered between 70 to 15 DTE
 - POSITION SIZE
 - "10 LOT" = Planned Capital of \$50k
 - +10 Puts, -20 Puts, +10 puts
 - +1 Call
 - CALLS
 - Delta close to 90
 - PUTS (Butterfly)
 - Short Put
 - 15-35 points below RUT
 - Long Puts
 - 50 point width on each side
 - Ideal Greeks of Entry Position
 - Delta close to neutral
 - T+0 Chart
 - As flat as possible
 - Enough room to be safe on both upside and downside

Net Exposure	Green Exposure	Cash Flow	Delta	Gamma	Vega	Theta
Net	\$20,000	\$0	1.70	0.07	22.7%	-0.2%
Mark	\$20,000	\$0	1.70	0.07	22.7%	-0.2%
Cashflow	-1.00	\$1.00	-0.01	0.00	0.00	0.00



<https://www.youtube.com/watch?v=VX9qsthsOpA&t=1333s>

M3 Delta Adjustment Points



For 10 lot

<https://www.youtube.com/watch?v=VX9qsths0pA&t=1333s>

LOCKE M3 RESULTS

<i>Strategy</i>	<u><i>M3</i></u>
Avg. (2011-2016)	55.38%
2016	48.60%
2015	65.30%
2014	89.20%
2013	22.20%
2012	51.60%
2011 (M9)	N/A

<https://www.lockeinyoursuccess.com/weekly-market-and-position-update/>

Road Trip Trade

Trade Design

- Put Broken Wing Butterfly on SPX
 - Upper long strike should be within 5 points of current market price
 - Short strike is 40 points below the upper long put
 - Lower long strike is 50 points below the short strike
- Planned capital is \$1,500 per butterfly
- Enter 70 - 80 DTE on a flat to down day in the market
- Entry debit should be no more than 5% of max margin
- Exit at your personal profit target or between 10 - 15 DTE

Road Trip Trade Adjustments(partial)

- If the market moves up, lift the right side by moving in the upside long (“Reverse Harvey”)
- Or, add a mini butterfly position
- If it moves down, buy a put debit spread (may use a conditional order)
- Add Layers

Road Trip Trade



<http://f1.capitaldiscussions.com/2/2016/11/20161110-Ryan-Road-Trip-Trade-Presentation.pdf>

Road Trip Alert Service Results – SPX

- Mar 2016 0.63%
- Apr 2016 1.08%
- May 2016 2.09%
- Jun 2016 3.53%
- Jul 2016 0.58%
- Aug 2016 -0.46%
- Sep 2016 2.27%
- Oct 2016 1.27%
- Nov 2016 2.46%
- Dec 2016 0.86%
- Total for 10 Months 14.31% Average 1.43%

Road Trip Ryan Simmen Results (SPX)

14					
15	Monthly Returns				
16	Jun	\$ 4,100	\$ 64,100	6.83%	
17	Jul	\$ 1,860	\$ 65,960	2.90%	
18	Aug	\$ (525)	\$ 65,435	-0.80%	
19	Sep	\$ (160)	\$ 65,275	-0.24%	
20	Oct	\$ 2,250	\$ 67,525	3.45%	
21	Nov	\$ 2,250	\$ 69,775	3.33%	
22				2.58%	
23					

M3 vs the Road Trip Trade

- “The Road Trip Trade (RTT) is essentially a Broken Wing Butterfly (BWB) with a no roll risk off adjustment strategy.”
- The RTT up adjustment strategy is a risk off adjustment strategy by rolling in the upper long put.

<https://www.lockeinyoursuccess.com/the-m3-vs-the-road-trip-trade/>

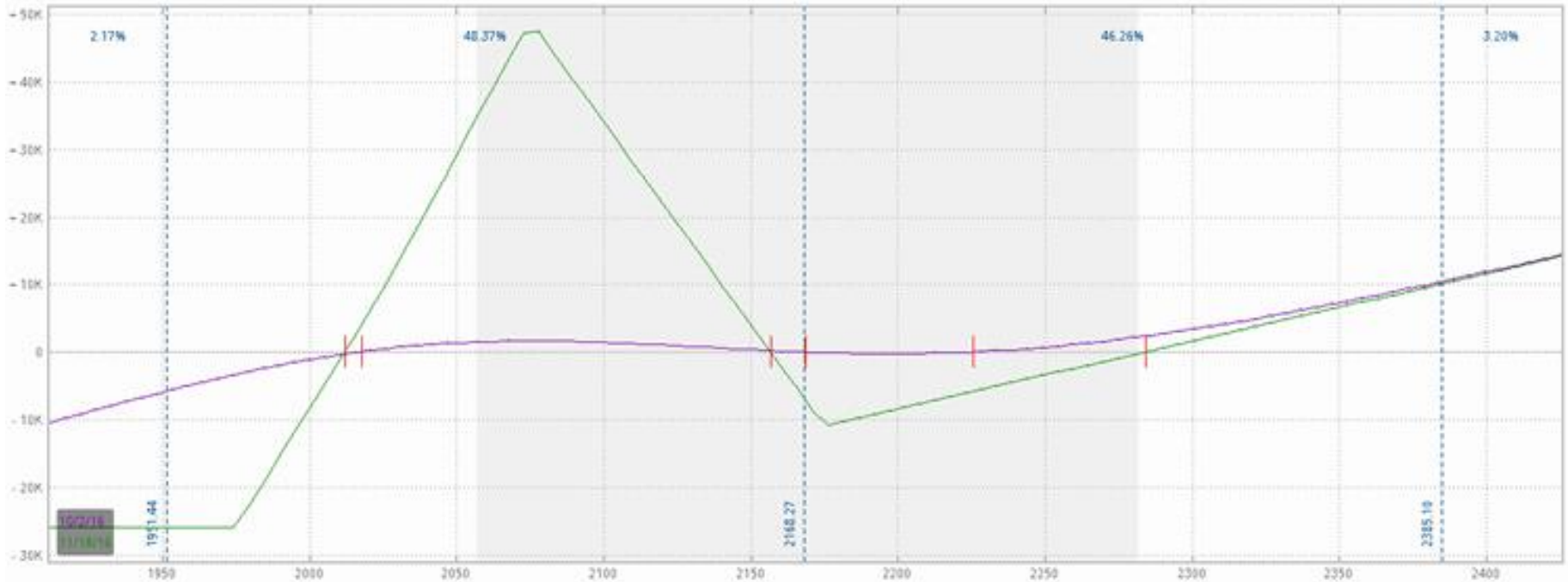
Jim Riggio's Kevlar

- Two Entry Modes:
- Mode 1: (for low vol. and steep put skew)
Symmetrical butterfly below the money
plus in the money call
- Mode 2: (for high vol. and normal or flat put
skew) Put BWB below the money
- Enter 40 to 80 DTE

<https://www.youtube.com/watch?v=zK2ZlrbZso8>

<http://kevlarttrade.com/>

Jim Riggio's Kevlar



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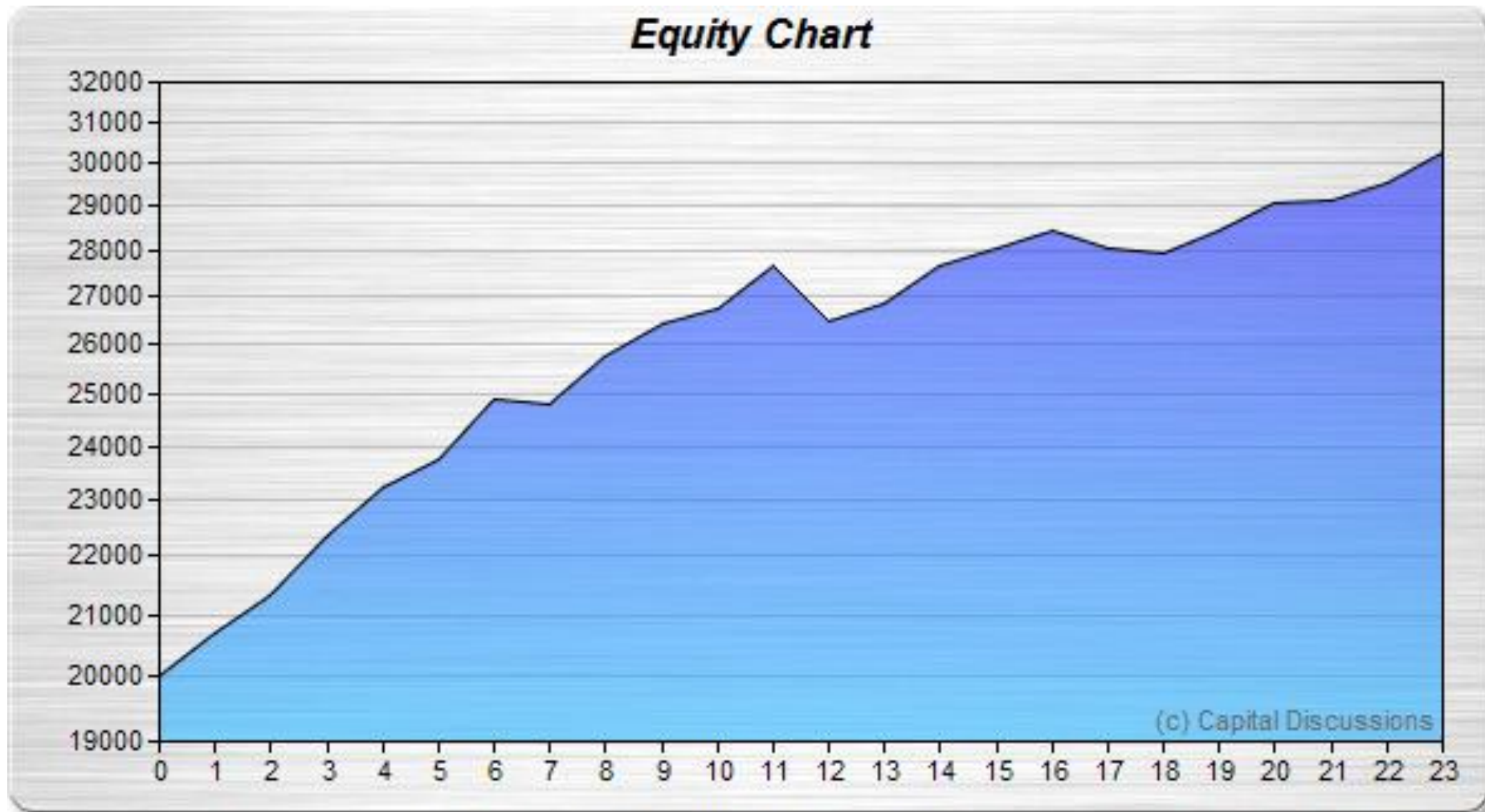
Jim Riggio's Kevlar

Trade Expiration	Yield on Planned Capital
Dec-2015	7.58%
Jan-2016	9.07%
Feb-2016	5.68%
Mar-2016	7.53%
Apr-2016	1.19%
May-2016	5.89%
Jun-2016	11.00%
Jul-2016	10.10%
Aug-2016	1.11%
Sep-2016	5.15%
Oct-2016	11.20%
Nov-2016	10.49%
Total for 12 Trades	85.99%
Average	7.17%

<https://www.youtube.com/watch?v=zK2ZlrbZso8>

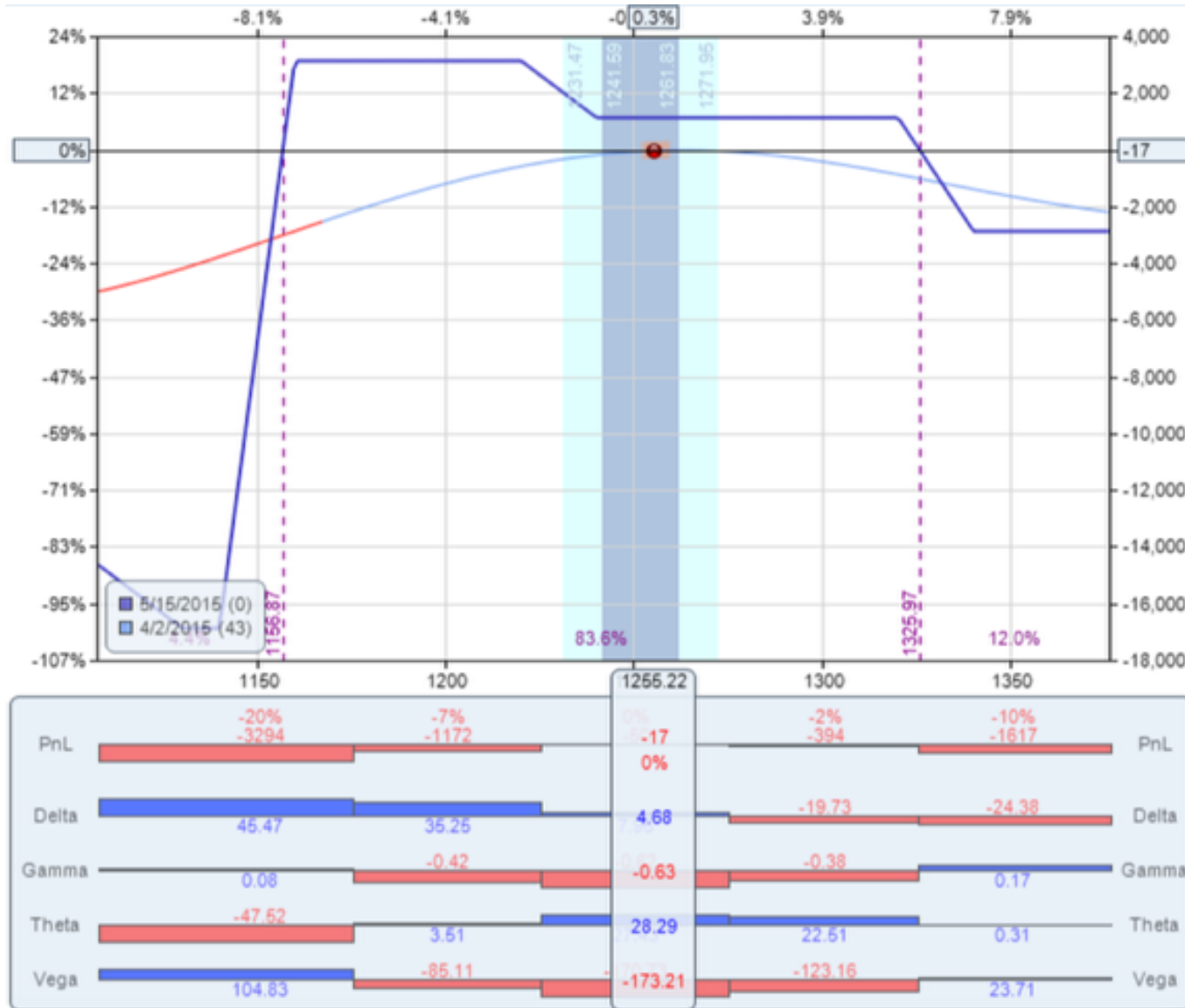
<http://kevlarttrade.com/>

Weirdor Trade Results 23 Months (Amy Meissner)



<http://a.capitaldiscussions.com/amy-meissner-trade-alerts-weirdor-strategy/>

Weirdor (aka Jeep) – Amy Meissner



<http://a.capitaldiscussions.com/amy-meissner-trade-alerts-weirdor-strategy/>
<http://optiontribe.com/2015/07/>

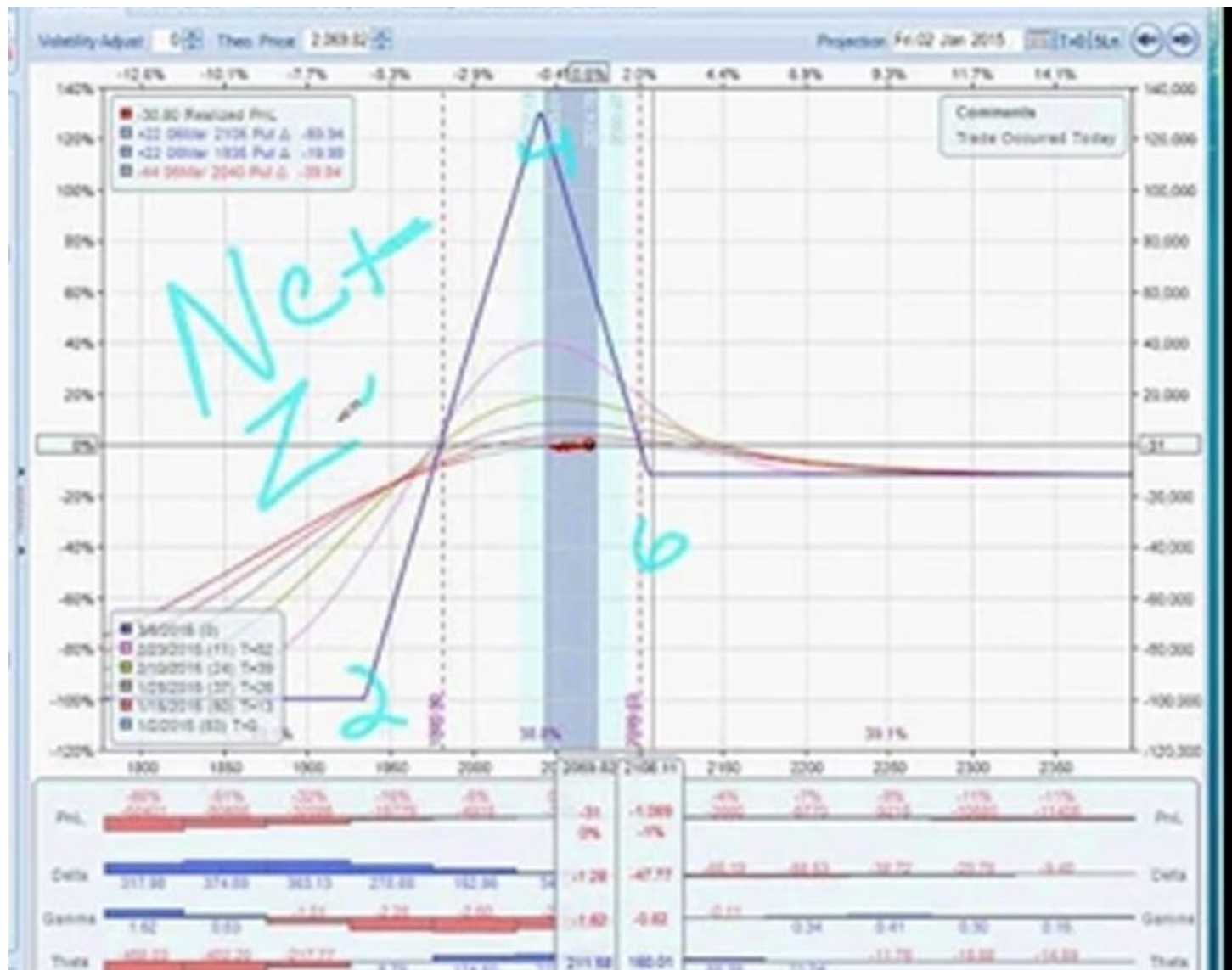
Weirdor – Amy Meissner

- Put Credit Spread (20 point spreads)
- Put Debit Spread
- Call Credit Spread
- Far OTM Put
- 40-50 DTE
- Add Put Debit Spread if moves down, using conditional order
- Exit 14 DTE
- Use tranches

<http://a.capitaldiscussions.com/amy-meissner-trade-alerts-weirdor-strategy/>

<http://optionstribes.com/2015/07/>

Falde Net-Zero Delta (60-40-20)



<http://optionstribes.com/category/by-contributor/andrew-falde/> (get free trial)

<http://www.smbtraining.com/blog/options-strategy-workshops>

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Falde Net-Zero Delta (60-40-20)

- Start as close to 60-40-20 as possible
- Split or Adjust Strikes to get close to 0 Delta
- Use First Available Contract with 60 Days left
- Exit, and Reenter, if short strikes Delta changes up or down by 20% from original value
- Maintain Overall Stop Losses of 2% and 5%
- If more conservative trade (like Road Trip), can 50-30-10
- More aggressively bearish, use 80-50-20. For less upside risk, can use 50-40-30
- Pair with other complementary strategies

<http://optionstribes.com/category/by-contributor/andrew-falde/> (get free trial)

<http://www.smbtraining.com/blog/options-strategy-workshops>

Matt Williamson FruitFly Compared to Road Trip

- “Make Money Faster”
- Under 40 Days instead of 70 Days
- To keep margin the same, move the lower leg down another 10 points and cut contracts in half
- Fully Objective

<https://www.youtube.com/watch?v=ShHj1CgG0dl>

Matt Williamson FruitFly Results

- 2012: 75.2%
- 2013: 67.2%
- 2014: (25.1%)
- 2015: 80.9%
- 2016: 87.6%

<https://www.youtube.com/watch?v=ShHj1CgG0dl>

Matt Williamson FruitFly Metrics

- Important Metrics:
 - ● Underlying: SPX
 - ● Trade Category: Butterfly
 - ● Planned Capital: \$4,000 per lot
 - ● Profit Target: 5%
 - ● Stop Loss Flexible (based on structure)
 - ● Win/Loss Ratio 6:1
 - ● Average win 4.3%
 - ● Average loss 7.2%
 - ● Per-Trade Expectancy 2.6%
 - ● Annual Expectancy* 63.3% based on 15-day average trade cycle

<https://www.youtube.com/watch?v=ShHj1CgG0dl>

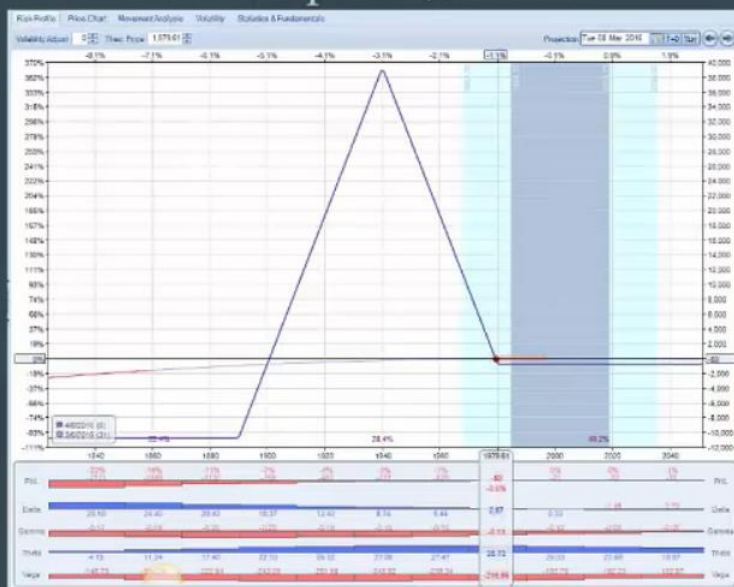
FruitFly Entry

- ● Underlying: SPX
- ● DTE: 30-35 (can go down to 20-25 during higher vol)
- ● Conditions: None (always in the market)
- ● Action: Buy to Open a broken-wing butterfly, as follows:
 - ○ Upper wing ATM (or 5 points ITM)
 - ○ Overall wing width no less than 80 (100+ preferred)
 - ○ Lower wing width - upper wing width = 20
 - ○ Entry price less than \$2.50 per fly
- Upon entering, note your starting theta value at the current price (with a \$0.00 P/L),
- rounded down to the nearest multiple of entry lot size (e.g. for a starting lot size of 12
- and a theta value of 129, your theta trigger would be 120)

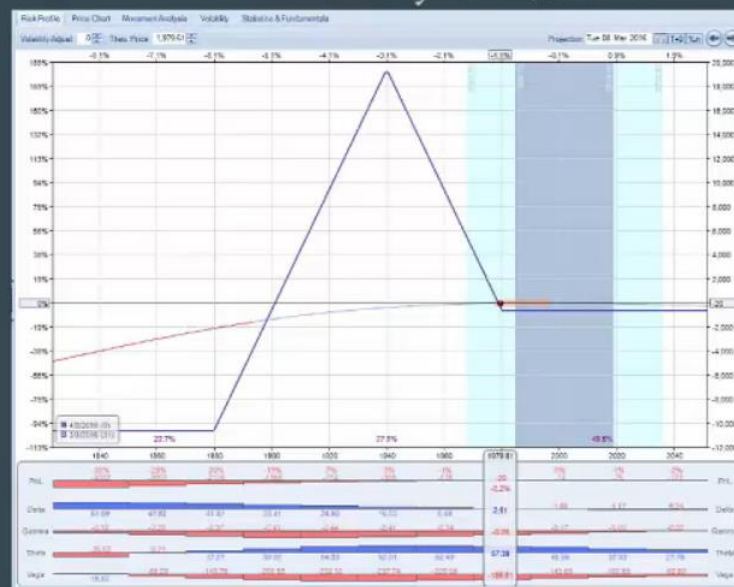
Solution #2

Roll the lower leg down another 10 points and just buy half the contracts. RegT risk would be the same, I save on commissions, and I get my entry target. Higher gamma and theta, but I *did* want to make money *faster*.

Road Trip T+0/31 Line



FruitFly T+0/31 Line



FruitFly Exits

- Exit at profit target (\$200 per lot)
- Exit if T+0 is below the expiration line (not break-even point) to the downside
- Exit if a needed adjustment would exceed planned capital

FruitFly Adjustments (partial)

- If Theta falls below the rounded starting theta value: ● Roll enough short strikes up by no more than 10 points to bring current theta back over threshold. (Rolling all shorts up 10 points will max out planned capital)
- If Delta becomes “greater” than -5 per lot to the upside: ● Roll enough short strikes up 5 or 10 points to bring delta back “below” -5 per lot

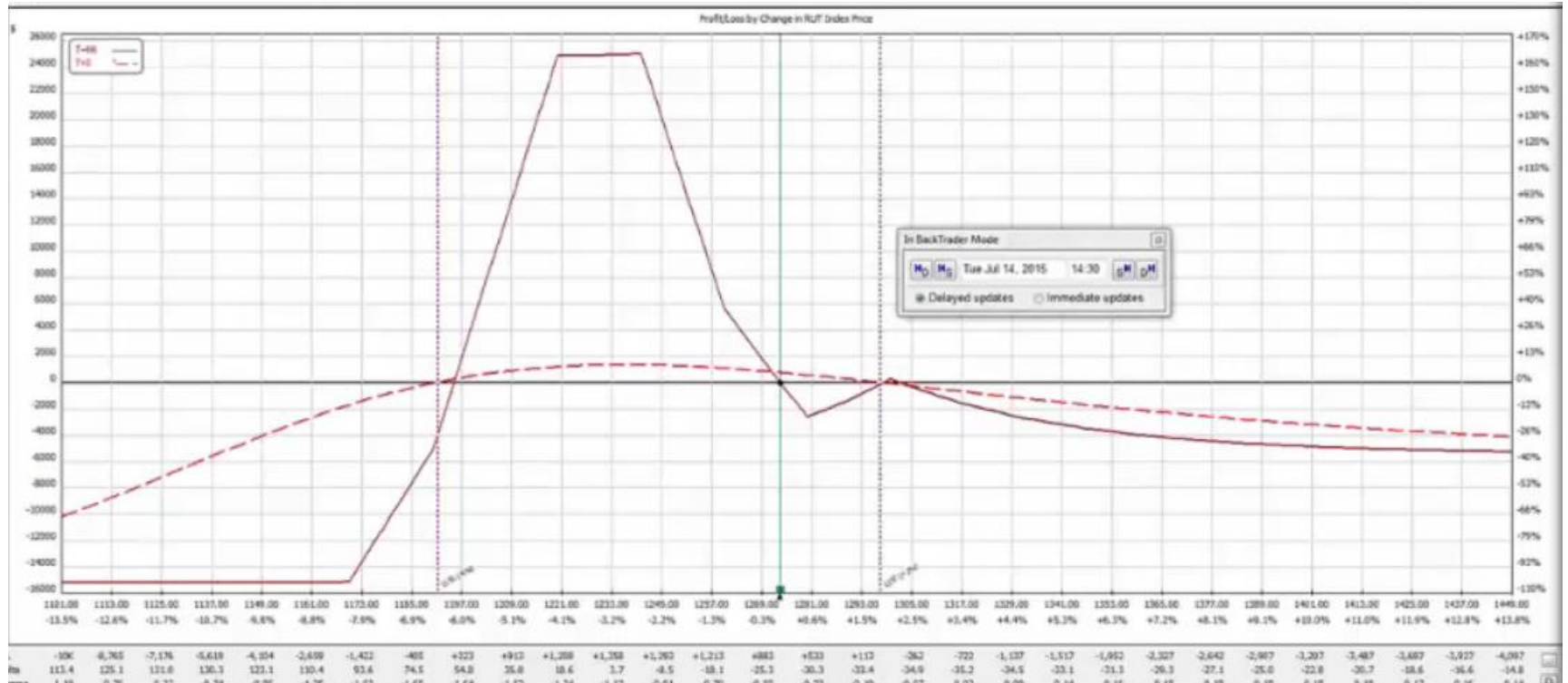
Bruno Voisin Rhino Strategy

- Enter at about 70 days to expiration
- Uses a combination of BWB, Call Calendars, and Call BWB's
- Starts with 5 40/50 Put BWB's with upper long 5 to 15 points in the money
- Adds butterflies or Call Calendar Spreads to maintain delta neutrality

<https://www.youtube.com/watch?v=NBp8zzdrnXo>

<http://a.capitaldiscussions.com/rhino-trade-alerts/>

Bruno Voisin Rhino Strategy



Bruno Voisin Rhino Strategy

Trade Expiration	Yield on Planned Capital	Yield on Maximum Capital
May-2015	6.71%	7.34%
Jun-2015	5.83%	5.37%
Jun-2015	6.93%	6.66%
Jul-2015	5.79%	5.96%
Jul-2015	4.87%	5.54%
Aug-2015	1.04%	1.21%
Aug-2015	3.64%	5.36%
Sep-2015	3.19%	6.65%
Oct-2015	1.58%	6.08%
Nov-2015	3.55%	4.02%
Dec-2015	3.55%	4.02%

Trade Expiration	Yield on Planned Capital	Yield on Maximum Capital
Jan-2016	3.05%	8.78%
Feb-2016	0.55%	1.69%
Mar-2016	-3.78%	-10.85%
Apr-2016	0.35%	0.73%
Apr-2016	0.14%	0.55%
May-2016	4.26%	11.43%
May-2016	5.62%	7.98%
Jun-2016	0.42%	0.32%
Aug-2016	2.90%	2.72%
Sep-2016	5.45%	5.12%
Oct-2016	11.22%	21.20%
Oct-2016	11.06%	12.75%
Nov-2016	6.57%	8.78%
Nov-2016	5.02%	7.30%
Average	3.98%	5.47%

LOCKE Super Simple Spreads RESULTS

<i>Strategy</i>	<u><i>SSS – V Condor</i></u>
Avg (2011-2016)	36.58%
2016	6.00%
2015	41.40%
2014	23.30%
2013	75.60%
2012	N/A
2011	N/A

<https://www.lockeinyoursuccess.com/weekly-market-and-position-update/>

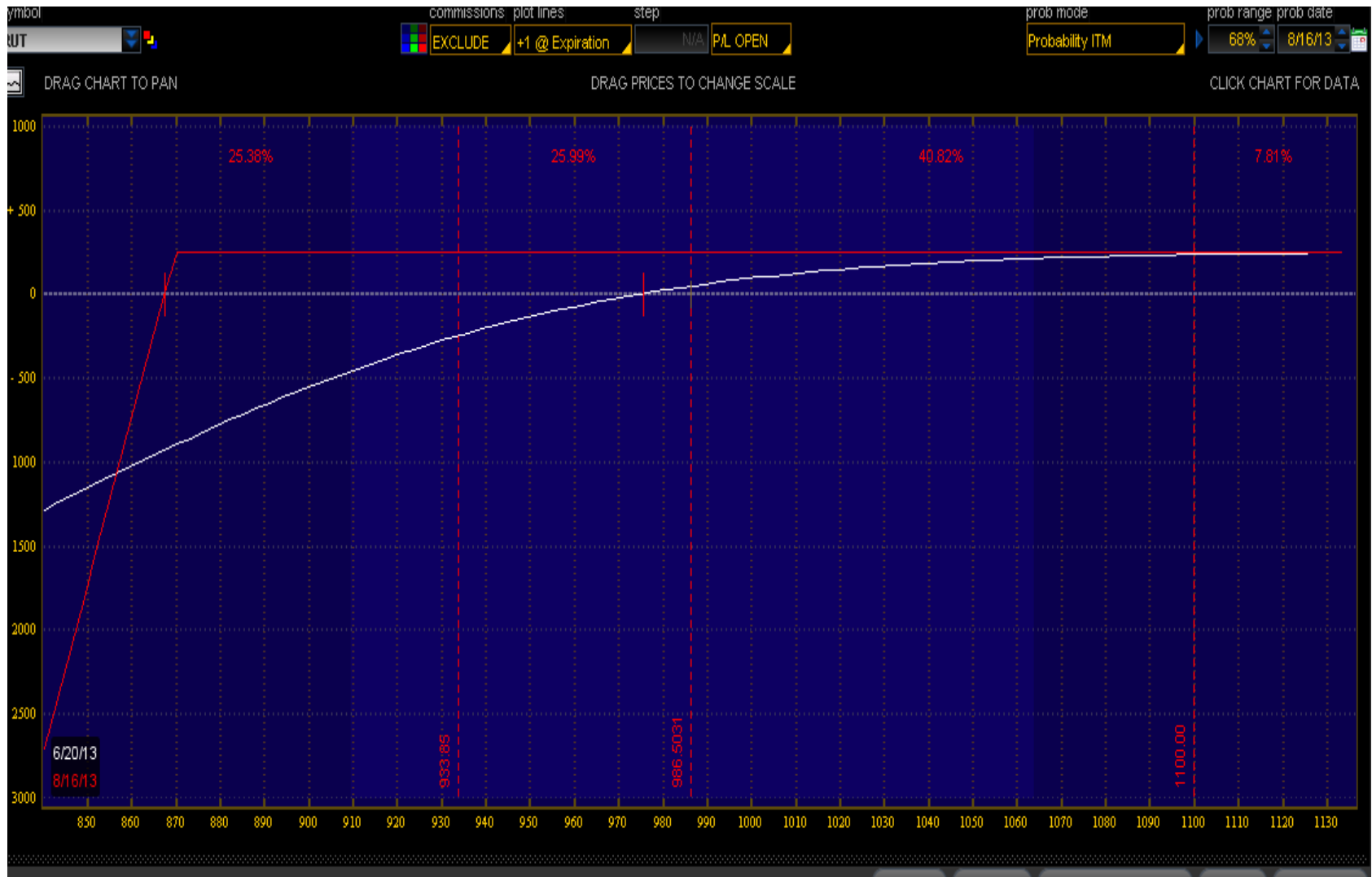
LOCKE Super Simple Spreads / THE BULL

- Entry 65 DTE
- Exit 30-37 DTE
- Sell 30 pt Bull Put Vertical at 10 delta
- Stop Loss \$250 – when occurs, exit and wait for next month entry

LOCKE Super Simple Spreads / THE BULL

- Entry 65 DTE
- Exit 30-37 DTE
- Sell 30 pt Bull Put Vertical at 10 delta
- Stop Loss \$250 – when occurs, exit and wait for next month entry

LOCKE Super Simple Spreads – The Bull

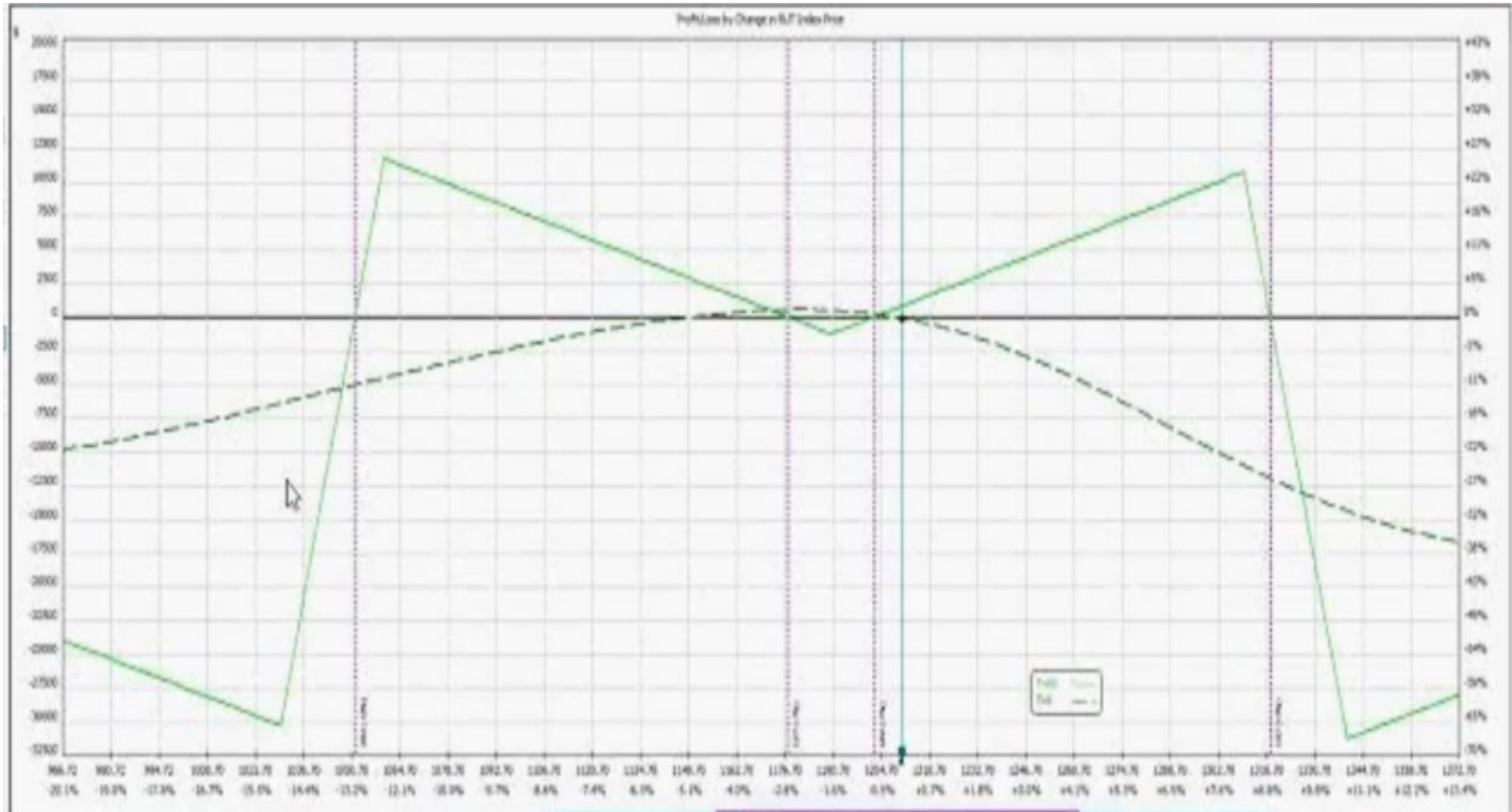


<https://www.lockeinyoursuccess.com/programs/super-simple-spreads/>

LOCKE Super Simple Spreads / V CONDOR

- Based on Iron Condor
- Embedded Straddle reduces drawdowns on large moves
- Includes simple Filter

LOCKE Super Simple Spreads / V CONDOR



<https://www.lockeinyoursuccess.com/programs/super-simple-spreads/>

Risk

- Are these like traditional “Income Strategies” in terms of Suitability
- Down 50% requires up 100% to get even
- Down 80% requires up 500% (Evan Rothschild)
- Black Swans
- Are you liable for Deficit after Loss?

RUT ETF ON 9/11, GAP DOWN 7%



Copyright 2015 Evan Rothschild

GOOGLE \$600 CALL OPTIONS GO FROM \$0.10 TO \$80 ON EARNINGS



Copyright 2015 Evan Rothschild

SWISS FRANC CURRENCY GAPS UP 20% AFTER UNPEGGING TO EURO



RON BERTINO'S SPACE TRIP / BLACK SWAN HEDGE

- “Look for a 25 point wide put credit spread in SPX, which will give you at least \$1 credit (sell 10 of these); typically at around -6 delta, using the 0/25/50/75/100 strikes”
- “Go out to 1 std dev (around -16 delta) and buy a 25 point wide put debit spread in SPX (buy around 4 of these), using the 0/25/50/75/100 strikes 4. “
- “Confirm that your position deltas are slightly negative (around -1 to -3 deltas per tranche), using TOS volatility smile “
- “Confirm that your T+0 crosses the zero line behind the upmost long put”
- “Upside risk should ideally be 2% to 3% of the max RegT risk (max of 5%); trade starts with a small debit”

RON BERTINO SPACE TRIP

