



# Options Fundamentals

## Ep 10

# Butterflies

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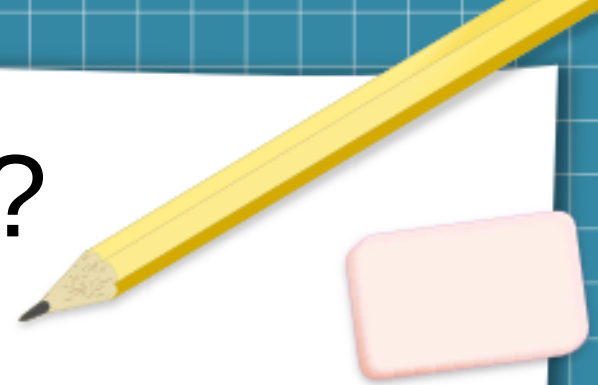
# Disclaimer

This presentation is for educational purposes only. Nothing in this presentation is intended to be trading or financial advice.



**ENTER AT YOUR OWN RISK**

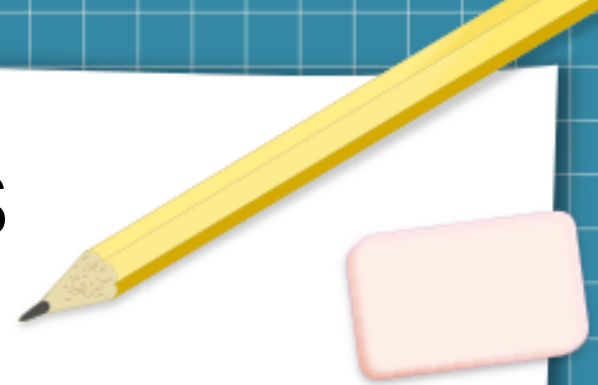
# What is a Butterfly?



- A Butterfly is a spread composed of 2 vertical spreads
  - One Debit Spread, One Credit Spread
  - The short of both spreads is the same strike
- Risk is on both sides
- Positive Theta, Negative Vega
- Inexpensive
  - Positive: Good Risk/Reward
  - Negative: Not good expiration probability

# Types of Butterflies

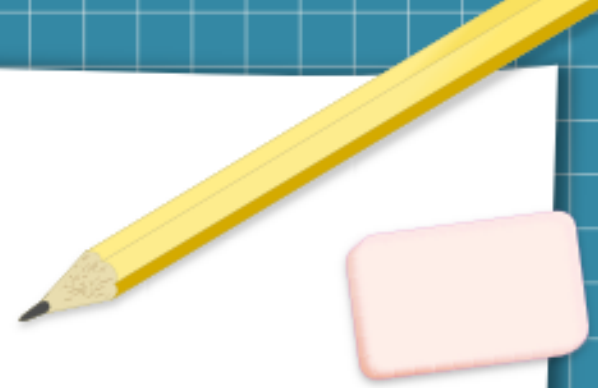
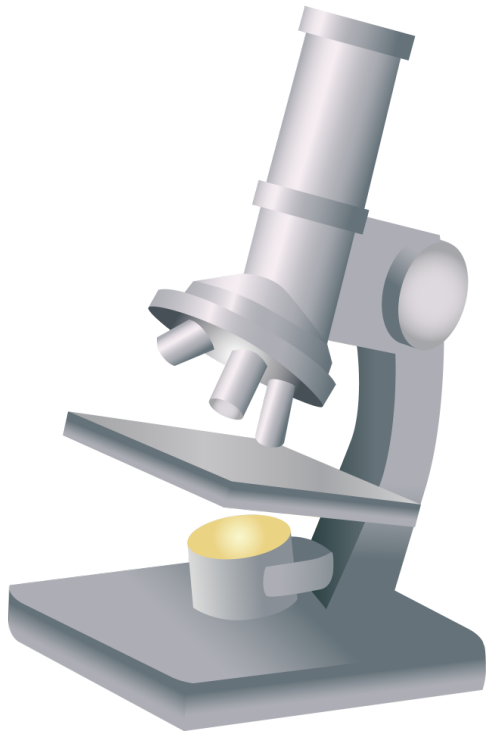
- Standard Butterfly
  - All calls or all puts
- Iron Butterfly
  - One credit spread in the calls, another credit spread in the puts, sharing the (nearly) same strike
- Balanced – spreads are the same distance
- Unbalanced – spread have different distances
  - Aka “Broken-wing” or “Skip Strike”
- ATM or OTM



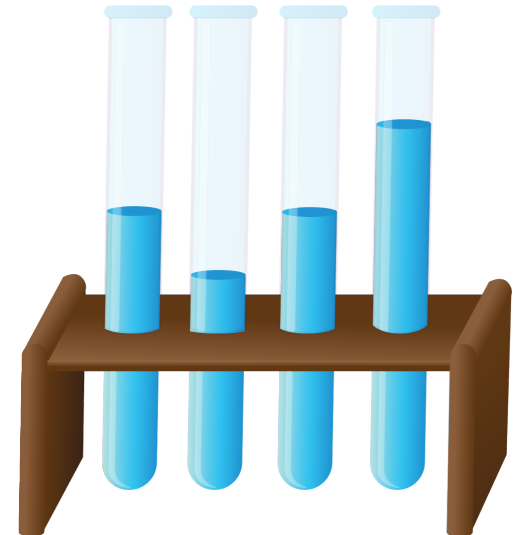
# When to Use Butterflies



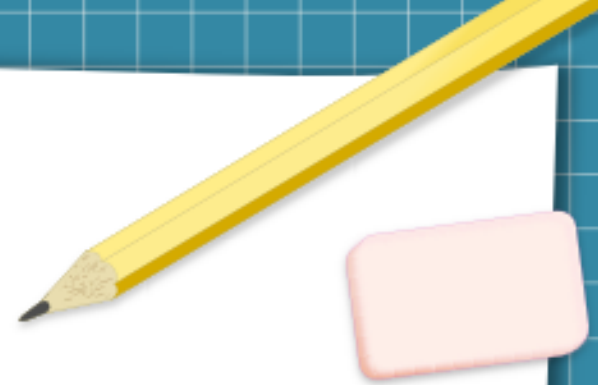
- Implied Volatility is not at extremes
- Very cheap directional play
- High priced underlyings



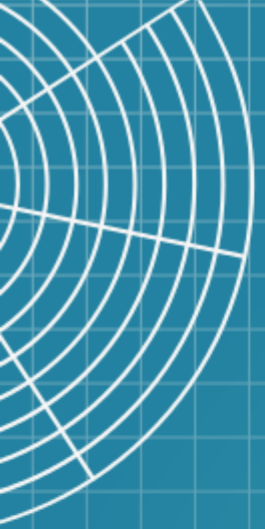
Off to the Lab!



# Summary



- Butterflies are 2 verticals that share a common short strike
- Very flexible
  - Standard vs Iron
  - ATM vs OTM
  - Equal distant wings or “broken” wings
  - Directional or non-directional
- Adjusted by adding flies or rolling spreads.
- Good in most volatility environments



Thank you for your time. Let's keep talking!  
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