Options Fundamentals
Ep 15

Double Diagonals

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Disclaimer

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

What is a Double Diagonal?

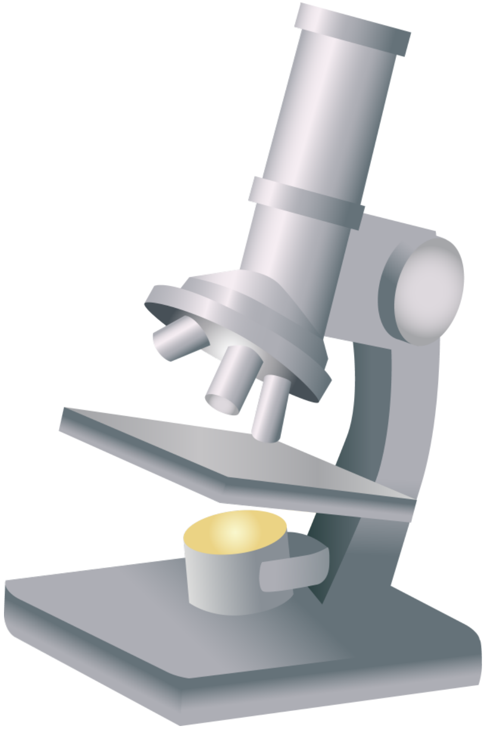
- It’s 2 diagonals at the same time
- A Diagonal is a time spread where you sell nearer term options and buy an equal number of further term options
  - e.g. Sell 1 Jun / Buy 1 Jul – <u>different strikes</u>
- The front month is generally near the money and the back month is generally in the money
- Like a Double Calendar and Iron Condor, you get more room

How do Double Diagonals Make Money?

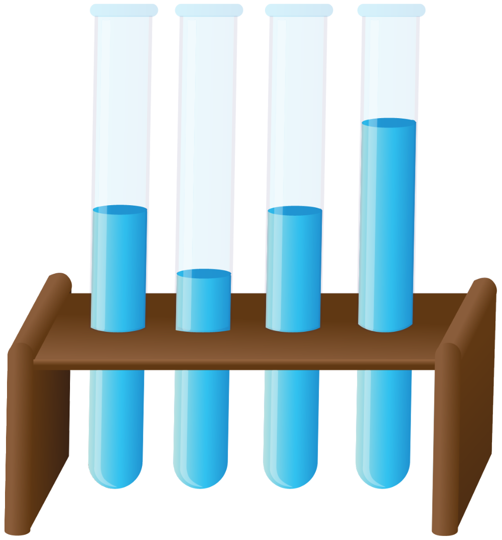
- Diagonals are flexible in the way they make money.
  - They are positive theta with risk in both directions
    - Theta is based on the width of the shorts
  - They are usually positive vega, but it’s possible to control the amount of vega risk including going negative
    - Vega is based on the distance in the strikes both in strike price and time

When to use Double Diagonals

- Diagonals do best when the IV is on the lower end since they usually benefit from rising volatility.
- When you want a wide tent but have the ability to control the Vega exposure
- This is determined by the width of the spread in time as well as the width between the strikes.



Off to the Lab!



Summary

- A double diagonal is a time spread similar to a double calendar and iron condor but the long and short are at different strikes
- This gives it flexibility in terms of price and volatility risk

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