



# Options Fundamentals

## Ep 17

# Putting It All Together

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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**

# Putting It All Together



- Learning the Greeks
  - Price, Volatility, Time
- Learning Spreads
  - Verticals: Butterflies, Ratio
  - Time: Calendars, Diagonals
- Learning Adjustments
  - When, Why, How?
- All lead to developing a trading plan!

# Review: What's a Trading Plan



- A good trading plan has the following parts:
  - When to put on the trade?
  - What trade to put on?
  - Profit target / Max Loss
  - Adjustment Plan – when as well as what
- A good trading plan gives you a standard to which you can measure your performance

# What Makes a Good Trader?



- Have a solid trading plan
  - Stick with it, but be willing to tweak if things are consistently failing
- Measure your success/failure
  - Have a specific goal
  - Follow your plan
  - Review all of your trades regularly
  - **Be Accountable!**

# Trading is a Business



- The goal of every business is to find a repeatable process that makes money consistently.
- Risk is necessary, but be smart about it
  - Know what risks you are taking vs the reward
  - Always know the Greeks of your positions and your portfolio
- Don't lose more than you make!

# Tips for Consistency

A yellow pencil is positioned diagonally in the top right corner, pointing towards the bottom left. Below the pencil's tip is a small, rectangular pink eraser.

- Keep your size small until you are very comfortable with a trade. Grow slowly
- Back off size if you are struggling, review your trades and figure out where you are getting into trouble
- Work on a small number of trades
- Don't go it alone
- The market is not San Diego, the weather conditions change.

# My Current Trading Plan



- Ultimate goal is to average 5% per month (60% annualized)
- I primarily trades big indices (SPX, RUT) as long as VIX is below 18
- If VIX is above 18, I back off the indices and look for non-correlated short-term trades (think GLD, TLT, USO)
- Occasional very small spec plays
- In normal market conditions, put similar trades on every week as free capital allows



# The Regular Trades



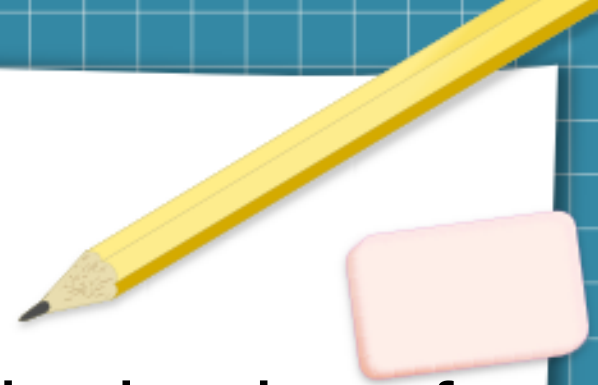
- Tuesday
  - SPX 45-day OTM Put Unbalanced Butterfly (if  $18 > VIX > 13.5$ )
    - Goal of 10% / Max Loss of 15%
  - SPX 30-day ATM Calendar (if  $VIX < 13.5$ ), longs 2 weeks from the shorts
    - Goal of 10% / Max Loss of 15%
  - RUT 10-day Calendar ATM, longs 2 weeks from the shorts
    - Goal of 8%, max loss of 12%
    - Out no later than the following Monday, usually by Friday
- Wednesday:
  - SPX 15-day put vertical (credit spread - sell 20 delta)
- Can wait a day if market conditions are rough
- Ideally I'm out in the first half of the life of the trade, don't go into Gamma week!

# Adjustment Strategies



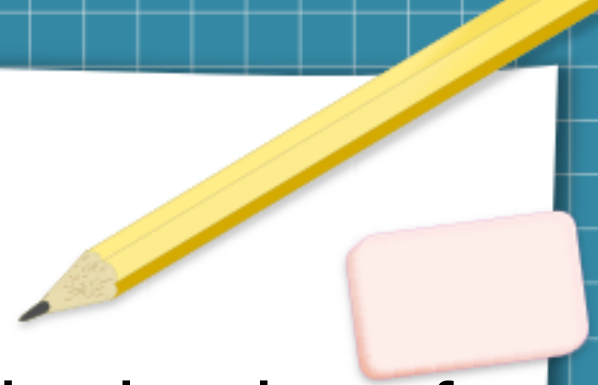
- I rarely adjust in the first calendar week
  - If it's going badly that early, just take it off, play next week.
- On the longer term trades (  $\geq 30$  days), limit adjustments to 3-4
- I'm skeptical of adjusting in the 2<sup>nd</sup> half of the trade life
- If the market is down 1.6 SD or more and I need to adjust, I will strongly consider a long put
- I rarely adjust the short-term trades (1-2 weeks)
- See Trade Review videos for examples of adjusting

# Series Summary



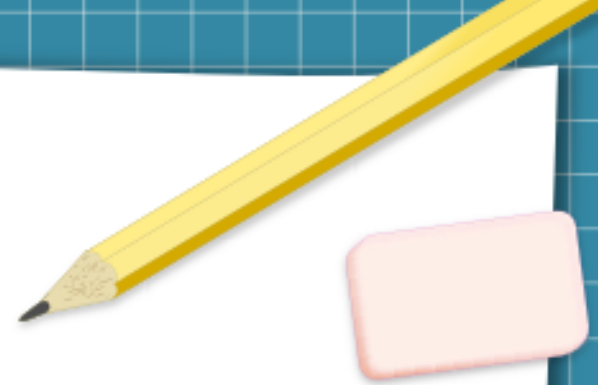
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  - What are options?
  - The Greeks of Options
  - Common Spreads
  - Building a Trading Plan

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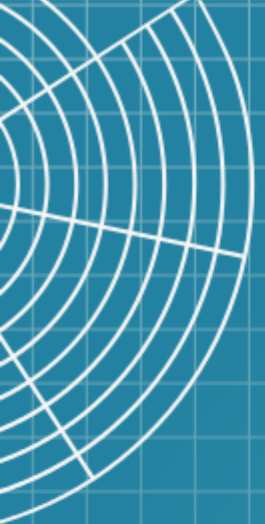


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# What's Next?



- My idea: Taking accountability to the next level!
- A weekly review of my trading posted to the Internet.
- **This Week @ MidwayTrades**
- What do you think?



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