**Quick Summary Post**

A summary does not do justice to the depth and breath of topics covered, therefore it is advised to read through and understand the many different ways people are approaching selling options, that way your understanding will be infinitely improved compared to merely reading a summary.

But here are key points
- Sell based on where price is very unlikely to go, far OTM
- SELL options with LESS than 90 DTE (days to expiration)
- Delta less than .0200
- 2/3 of account in cash for increased margin requirements / ride out positions if move towards strike over time
- Always place [limit order](https://www.bigmiketrading.com/wiki/trading-wiki/Limit-Order), never [market order](https://www.bigmiketrading.com/wiki/trading-wiki/Market-Order)
- do not trade between strikes ie CL $80.50 Low OI (Open Interest)
- Be mindful of seasonal tendencies
- Consider adding to positions as OTM options get closer to expiry and margin drops (subject to having 67% of account in cash)
- Avoid volatile commodities

other incidentals rules Ron observes; post 196 <https://www.bigmiketrading.com/commodities-futures-trading/12309-selling-options-futures-20.html#post255970>

Things to know
Number one, compare margin requirements between brokers and the exchange minimum. Some FCMs (Brokers) charge a little extra. Some don't charge any extra. That will severely cut ROI.

Number two, a big one. Margin calls, check if your broker will automatically trade you out of the position (auto-liquidation) with a market order. You do not want that to happen. Huge unnecessary losses could result.

Very interesting videos of a VERY successful option seller. 30-50% ROI per annum.
Part 1. 24 minutes [Trader - made $41 million profit in 3 years option trading - YouTube](http://www.youtube.com/watch?v=cXy9HoWX0es&list=PL9B32D5E815ABDE26&index=1)
Part 2. 51 minutes <http://www.youtube.com/watch?gl=US&hl=en&client=mv-google&v=BquDGE9KxZQ&nomobile=1> OPTION TRADER makes $105MM PROFIT in the NDX, SPX & RUT - Her STORY Uncovered - YouTube[/url]
Summary is that she sells stock index options in the NDX, SPX & RUT about 17% OTM at 56 DTE. About 250-270 points on ES puts. That looks to be about a 0.0200 Delta or lower.

Here is an excellent, excellent website for an economic calendar.
[http://www.bloomberg.com/markets/economic-calendar/]Economic](http://www.bloomberg.com/markets/economic-calendar/%5DEconomic)

Here is a website for some of the agricultural reports.
[http://www.nass.usda.gov/Publications/index.asp]NASS](http://www.nass.usda.gov/Publications/index.asp%5DNASS) - Publications

This page is where you can sign up to receive emails about the margin change notices for the CME, CBOT, NYMEX and COMEX. <http://www.cmegroup.com/newsletter/web2lead/web2sf-old.htm>

You can sign up for ICE margin change notices to be emailed to you here.
<https://www.theice.com/Subscription.shtm>

Futures and options charts [http://futures.tradingcharts.com/]Commodity](http://futures.tradingcharts.com/%5DCommodity) Prices / Quotes & Commodity Charts where you can check futures (10 minute delayed) and options prices together with volume traded and open interest up to previous day close.

Technicals for options on OX are on the Futures Options Quote Detail page and also on the Option Chain page.

They also are available on the CME daily bulletins. <http://www.cmegroup.com/tools-information/build-a-report.html?report=dailybulletin>

Read the Dow Jones news on OX to get a feel for current thoughts on commodities, check Hightower occasionally. check what Cordier is saying. Do Google searches (news) for quotes by these knowledgeable analysts. John Kemp. Tim Evans. Oliver Jakob.

You can get free option deltas at the exchanges but that is only the prior day's delta. But that is probably good enough for most option trading.

CME contracts Find the report for the commodity you want. For example PG63 is energy options.
[Daily Bulletin | Build a Report](http://www.cmegroup.com/tools-information/build-a-report.html?report=dailybulletin)

ICE contracts go to Category=End of Day Report, Report=ICE Futures US Options, then pick product.
<https://www.theice.com/marketdata/reports/ReportCenter.shtml>

Free seasonal charts <http://www.ccstrade.com/futures/seasonal/>

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"You mentioned you try to make 3% ROI on a 30 day basis.
How do you calculate this with selling options?
Are you looking at the amount of premium you will receive in relation to the amount of margin you need to put up for that option?

I take premium of the option minus fees divided by (margin required plus the excess cash I keep on hand for that position). But that ROI is low because as the margin decreases I am reinvesting that unneeded margin and selling new positions. The 3% assumes that I am keeping the same margin and excess until expiration, which isn't true. But I don't know any other way to calculate it. But it does give me a way to compare options and pick the ones to sell."

I understand the "premium of the option minus fees divided by margin" part, but how do you determine what exactly is the amount of excess cash that you will keep on hand for that position?

Do you revert back to the 66% cash reserve? Could you give me a simple example...using some arbitrary numbers? Maybe $115 in premium with $15 in fees and comminssion and $1,000 in margin to keep things simple.....
Yes 66% cash reserve or 2X the margin required for cash. For some more volatile contracts, I may use 3 or 4 times for cash.

For example, the margin required for a June NG 3.00 call is $332 (Apr 18 trading). I put $664 for cash excess. So $996 to cover the trade. $40 premium minus $15 for fees leaves $25 possible profit. $25 divided by $996 equals 2.5% ROI in 38 days. Converted to a 30 day basis that is 2.0% ROI.

A 2% monthly ROI is 26.8% yearly when compounded monthly. I bet a lot of people will take that.

But in reality the returns are even higher. When the option gets closer to expiration and if the market isn't going severely against you, or if the exchange doesn't raise margin rates, then you will have some of that $996 to reinvest in another option. The 2% ROI would be if you kept $996 to cover it until it expired. Which rarely happens.

When you continue to add postions in this example, do you generally add at the same strike price or do you start you evaluation all over again?

Most times a new strike. But if bids are there and the return is good I will add more contracts at the same strike.

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Here is an excellent, excellent website for an economic calendar.
[Economic Calendar - Bloomberg](http://www.bloomberg.com/markets/economic-calendar/)

It gives you current week reports, consensus prior to the reports, actual numbers after the report and historical charts of that report. All things that greatly affect futures and options.

Here is a website for some of the agricultural reports.
[NASS - Publications](http://www.nass.usda.gov/Publications/index.asp)

As far as **placing** orders. That is one thing that takes a lot of experience because each market is different. For ES you can place a bid between the [bid and ask](https://www.bigmiketrading.com/wiki/trading-wiki/Bid-and-Ask) and usually get filled if there is enough volume on that option. For most others you have to kinda know that market. And some days you just can't get anything done at a reasonable price. Never chase a bid to just get something on. Some commodities you have to offer less than settlement to get them on. Others you can sometimes get higher than settlement (assuming futures aren't too far from settlement).

Some days there are reasonable bids that you can sell. Some days you place an ask and get filled. Some days you can't get anything done.

Are you familiar with how Delta works to apply it to the changes in futures price? For example if you want to sell crude puts and futures are down 1.50 you take the delta, let's say .0200, and multiply it times the price change for the futures. So 1.50 times .0200 equals .03. So you take the prior day settlement for that option, lets say .06, and add the .03 to get .09. That would be a fair price for that option right then.

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| Pag 19Do you use the seasonality charts from MRCI at all in your own research? |

All the time. In addition to that I have made my own charts of the years since 2006 overlaid on each other.

I look at the last 5 years and determine if the current markets are following the 15-year line shown on the MRCI charts. Then I look at current fundamentals to see if the market will be prone to follow the seasonality or not.

NG usually drops starting June 15th until Aug 31st. But since this year the inventory was so overwhelming and the price was so low I kinda knew that one wouldn't work this year. But even then a short call far enough out of the money would still have made money this year if you had enough excess to ride out the up swings.

When I look at MRCI's recommended trades, I reject 90% of them for various reasons. Too short a time frame, not a commodity I trade, fundamentals are wrong this year, not working the last few years, current market is too volatile. I then throughly research the rest and decide if they are doable.

I have a spreadsheet where I keep a list of the ones that are possibilities. I also add some I found that they don't have. I track the actual performance of them over the last 5 years on a dollar basis per day held.

Attached is an Oct sugar seasonal chart of mine. The up trend from early June to mid July works well. I sold SB puts and then I also felt confident enough to buy calls. I bought Oct 22.00 calls for 0.82 on 5/9/12. Sold them for 1.50 on 7/26/12.

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Hey Ron, I am mainly a futures trader, but I have traded options in the past. In this sense I am not as sophisticated as you, so here come some questions:

I've read this discussion through and I couldn't find exactly how you deal with entering (opening) a naked put or call. I do remember you stating that it's tricky and sometimes you get what you want, sometimes not so much...

Initially what do you look for to make you interested in a position (besides fundamentals...)?
Mainly fundamentals. Some seasonals. ROI should be at least 2% per month. Lack of volatility in the future contract. Is someone bidding above fair price.

Predictability of the direction of the futures. For example, I sold some grain puts when the market was racing higher. But I don't have anything on now because it could go dramatically either way from here.

Do you just watch the delta calculation on instruments your interested in and see if certain put/calls are declining to a preferable delta?
Not really.

Obviously you make sure there is huge OI on it.
Nope. I have sold options where that was the first trade of that option. Usually because someone was bidding it. Since the vast majority of options I ride to expiration, ease of getting out of them isn't usually a concern.

But I will prefer the more highly traded strikes. For example I have never traded a 60.50 CL option. But I have traded thousands of 60.00s.

What is your process to actually sell that unit? Do you pick the middle of the B/A and set your full amount you are looking to acquire? Do you only look to acquire half/portion at first? Does this work?
A lot of times I am picking off good bids. Other times I will pick what I consider a fair price between the [bid and ask](https://www.bigmiketrading.com/wiki/trading-wiki/Bid-and-Ask).

This is where experience helps. Trading options over the years gives you a sense of how to acquire options in that commodity. Some commodities you can get above fair price. Others you have go go below fair price to get anything done.

Fair price is determined by multiplying the amount that the futures contract is up or down times the delta. Then that is added to yesterday's settlement of the option.

On some commodities if the futures had a big up or down day, I find that you need to wait until the next day to get fair priced bids to show up.

Is there a better time of day/week/month to submit a limit sell on a call or a put when hungry buyers need to purchase them?

Not really. Mainly when the pit is open. Monday mornings and Friday afternoons are slow.

If there is a bid ask **spread** of $0.21 to 0.23 would you just hit the market or limit to the current bid?

Depends on the commodity and the direction the futures are currently moving.

All the money management (67%) and the 2X cash holdings, sell before long weekends, et cetera you don't have to go through.
Before a long weekend is one of the best times to sell options. You get an extra day of time erosion on your option when there isn't any trading.

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My short Oct SB 16 puts expire today. I put them on 5/9/12 for 0.10. OX was charging $330 margin then. I put $660 more excess on for that trade. Futures were at 20.79.

On June 4th futures dropped to 19.29. The premium on that option moved up to 0.19. The OX margin on that day was $440.

The premium moving up caused a $100.80 loss in my account balance. The margin moved up $110. But the $660 excess I kept per contract when I put on the trade covered the $210 needed to keep the position on and kept me from getting a margin call and allowed me to ride out the market moving against me.

On Sep 6th futures were down to 18.87. But since the options was so close to expiring the premium did not go higher.

Today the options will expire at zero. That's a $112 profit, minus fees, per contract.

This is an example to show that even if you put on a position and the market moves somewhat against you, if you have enough excess you can ride out that movement and have a profitable trade. With the excess I had on I could have rode out an even larger move against me.

Of course if the market is moving against you because something fundamental changes, then bailing out on the position would be the smart thing to do. That is where experience comes in to know when to hold 'em and when to fold 'em. And even then you still will occasionally do the wrong thing. But the further out of the money your strikes are the safer your position.

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When I use to short/strangle ES options, I found that it was harder to get decent premium at far out strikes on ES calls. While on the put side I can go much farther out. I suppose there are many many more buyers of puts (to hedge) than calls when it comes to ES. I was once told that the equities markets usually meltdown suddenly but melts up very slowly like the past 7-8 weeks. On the other hand, the premium on ES puts double-triple-quadruple or more on strikes that are 50%-70% OTM AFTER a 10%-12%-15% sell off. Those are the best times to sell puts. However, I would caution against taking a large position since there is no way to predict if the sell off is over. I do not trade ES options regularly any more because I can get a better ROI trading other things.

As for grains and commodities that have clear seasonal trends, it is much easier to position. Plain and simple, know the seasonal trends and DO NOT go against it. The advantage of selling far OTM is that I do not need to be exact in timing. Many times I was either early or late in entering a position but being far OTM has allowed me to weather the storm without losing too much sleep.

There is always a terror threat when trading CL calls. Does that mean I won't sell CL calls? No. But I do keep my positions small.

Just my two cents worth.......

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Just a word of caution from my personal trading experience, there is a lot to learn and understand when it comes to selling options on futures. While the possibilities of very handsome returns are possible, discipline and patience is vitally important. Just because 80%-90% or more of trades will be profitable does not mean you have found the Holy Grail or some inside secret to success, because that is not what this is. Each time I took a bigger position when I was not ready to do so or moved my strikes a little closer because I got greedy, I got destroyed. Every time a stop loss was reached and I did not get out properly for a small acceptable loss because I "hoped" the position will reverse, I ended up losing 2x-3x-4x or more than I should have. No one can "teach" you any of these things. I read all about them, lots of experienced options sellers warned me about them but the best way to learn is to experience them for yourself. After you get a margin call waking you up at 7 AM or having an option go in the money and be assigned a futures contract, you will come to respect position sizing, stop losses, and selecting strikes far far far out of the money to sell.

For all the years I have been doing this, I do not even consider myself an expert. There is still a lot for me to learn. If anything, my trading experience has humbled me and each losing trade reminds me that I must leave my ego at the door when trading. I've said this before and I will say it again, it's not about being right, it's about making money.

Doubling your money is not all that far fetched if you combined Cordier's "staggering" method and trade 5-6 different markets plus Ron99's style of selecting strikes with very very low Delta's, under 0.04 or lower.

Agree:

Take the time to learn. It is very appealing to see option premiums out there for the taking but you have to fathom all of the external variables that can move that premium for or against you. Writing options is a very slow paced and sometimes boring way to trade compared to trading the Forex markets on a 1 minute or 10 second chart; been there done that.

If you have never done this before, hell I don't know....sell one option in the grain market so far OTM, has 0.1% chance of going [ITM](https://www.bigmiketrading.com/wiki/trading-wiki/ITM), takes 30 days to expire and after all the fees and commissions are deducted from the trade you end up with...$5. Yes, that is $5. If you have the patience to wait 30 days to make $5 then you're have learned something...patience. You must 'possess' this trait to sell options. That option might be too far away to even move in price pending the underlying movement. Take note of the premiums, 10%, 20%, even 50% away from the underlying price and see how those premiums move in that 30 days.

Don't subscribe to a newsletter or alert service either. All the info here is free...and probably a lot better too 

Depending on your level of trading experience, some brokerage houses may not let you write options uncovered as soon as you open an account. Check with them beforehand. They have their initiation policies also....

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| Kevin:Oil is always going to be one of those markets that has the terrorist volatility variable waiting to be added to the current price. I would agree with you that the energies will always have a bias to the upside because of this. I am waiting for oil to drop a few dollars in price and will look to sell puts again because of the ever present terrorist threat. Time is on our side when selling options so I can wait for months if needed. I'm short March 900 wheat calls and my reasoning was that price was in the 50% retracement range even after the last bullish crop progress report in January. I sold 680 puts also. I think the tendency is to want to sell puts. The vast majority of the general public that owns stocks only want stocks to go up. This makes for a price bias on calls that makes them more expensive then puts. The futures markets are a minority but shorting a futures contract is more routine in futures than it is in stocks so why should we be 'scared' of writing call options on futures? Because we're scared that something like a terrorist threat can spike prices. In the grains it can be drought, OJ freezing weather, cotton the boll weevil..etc. But, these 'variables' usually happen with the seasonal aspects of the markets. I wait for those seasonal highs, or what I think might be the seasonal high along with what the charts are saying to let me know when it might be safe to sell calls. But, you are right. I fell more comfortable selling puts but sell calls nonetheless. It's all a waiting **game** for me and how I interpret charts. |

Excellent post.

I don't usually sell too many oil calls because it's not worth the **risk** to make <$70. Higher than that maybe. But I also look back and say how many times in the last 20 years has oil spiked drastically because of an event? I can't come up with any. But that also doesn't mean it won't happen. Sometimes I think I am too **risk** adverse.

That is why I will do covered calls sometimes in oil. Selling the lower strike call and buying a higher strike call. The long call puts a limit on possible loss. The ROI% can be higher too if you have the correct spread between strikes.

Hedge funds usually are buyers of futures but I have sensed that they haven't been as long lately. They were really long early 2008.

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**I thought I'd share some of my initial observations, as a long time futures trader trying options on futures for the first time. Keep in mind I am no expert in options by any stretch of the imagination. These are "options newbie" observations...**

1. Selling deep out of the money options (OTM) is, as someone said, like watching paint dry. Boring, especially compared to pure futures trading.

2. The impulse to chase a trade is greater, since there is so little volume. For example, for the last 2-3 days I was trying to sell a CTK3 65 put. I couldn't get a decent price, and did not want to hit the bid, so instead of waiting, I went to a 67 put and got filled. Better ROI, but also less room for error. I chased it.

3. One tick can make a huge difference, but it is a very small amount of money per contract. It leads to a mental disconnect for me. With crude oil, for example, going from .07 to .06 is only $10. Many futures traders, looking for $1000-2000 wins, might say "$10 - big deal!" With deep OTM options, though, it matters a LOT.

4. This whole technique is all about ROI. Forget about dollars, they will take care of themselves. If you focus on ROI, you'll be better off.

5. Commissions matter a lot. OptionsXpress is too much, even with their aforementioned great service. This can really kill your ROI. It can really gobble up a lot of your very small premium.

6. As a futures trader, I am thrilled with any futures method that has 50% win rate. Really, I don't care at all - win rate isn't really important in futures if the positive [expectancy](https://www.bigmiketrading.com/wiki/trading-wiki/Expectancy) is there - but with option selling, I do have to care about win rate. I figure I need 90% to do decently. Ron does close to 100%. Either number is HUGE as a futures trader.

Here is the math explaining why:

Win 90% of time, 3%monthly ROI = .9\* 3 = 2.7
Win 10% of time, -10%monthly ROI = .1\* (-10) = -1 (I'm assuming I got out of loser before it got too too bad)

2.7-1 = Net 1.7% monthly ROI, >> 20% annual return

If you get below 80% win rate, you basically are breakeven.

So, win % and ROI are both critical to know and understand - things I never really consider in futures.

Hope this info helps someone considering this method!

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When placing sell orders for options I first look at the prior day's settlement. I then look at the current day's futures price. If you multiply the delta for that option, preferably out to 4 decimal places, times the amount that futures are up or down, you get the amount that the option should be up or down compared to the prior day's settlement.
For example, if the delta is 0.0200 and futures are down 0.50, then 0.02 times 0.50 equals 0.01. If the prior day's settlement was 0.06, then the fair price for the option would be 0.07 if there is still about >30 DTE. Less than that and the time erosion of the premium would probably wipe out that penny.
If you don't have the delta then just figure if the futures are down a lot then the put should be trading higher and calls would be trading lower. Opposite for days when prices are up.
Don't chase buy prices. If the bids aren't there then just put in your fair ask and wait.
GC is usually decent for getting options sold at a fair price. Stick to the options with more OI.
Since silver has sky high margin, I haven't been trading it because the ROI is so low.

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ron99[](https://www.bigmiketrading.com/options-cfd-trading/12309-selling-options-futures-post304704.html#post304704)

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| If you are selling options at <$100 premium then I wouldn't use doubling of premium. Above that probably. But just going off of premium leaves you missing part of the picture. Margin can and does move independently of premium. Exchanges can raise margin. FCMs can raise margin above the exchanges.When I use up the cash excess I set up for that trade when I put it on, that's when I dump it. If every **position** in your account did this you would be on margin call.If margin is $500 then I have $1000 excess. If the loss on the premium plus the increase in margin is up to $1000 then it is time to get out.And of course the reason the market went against you plays a large part in determining whether to dump it or not. |

With the big drop in crude this week, I thought it would be interesting to calculate my possible exit point, using Ron's method shown above. This is what I get (I hope it is clear).

I am a little confused because I used freed up margin from the first sale of a crude option to sell a second option back on 2/12...

So, I will **treat** both the original and "add on" option together as a pair (maybe I should not).

Originally, I sold CLJ375P for net premium of $64.73. Margin was $327, so I had $654 excess.

2 weeks later, I sold CLJ365P for net premium of $4.73. Margin was $103.

So, overall I collected $69.46 in premium, and right now it is showing a $40 gain.

On margin right now, my initial **position** has margin of $511, and the second **position** has margin of $122.

Since I started with $654 excess, I figure I know have $654 + 40 (premium) –184 (increase in position1 margin) –122 (**position** 2 margin) = $388 in excess remaining.

So, should margin on the 2 positions, plus any premium loss, go up by combined $388, I’ll probably bail (according to your rule).

Is that how you would do it, or do you **treat** each **position** as **separate**, even though the 2nd one was a “add to winner” type trade?

I treat each position separate.

You should have had $206 excess for the 65 put. Or you should have had $309 unused excess before you put on that position.

You don't want 1 big loser position to wipe out the profits on all of your other trades because you held onto it too long so I treat each position separately.

If things are volatile I sometimes go to triple or quadruple excess on the real far out of the money CL puts because the very low margin and excess don't cover a moderate move.

What I do is calculate the margin on a put that is $10 higher strike when I put on the position figuring I should be able to ride at least that much of a move. If the margin + excess that I have for the $65 put doesn't cover that much of a move then I raise the excess higher. You don't want to be bailing out of 65 puts on a CL move of <10 in futures.

But in other commodities that isn't necessary. You need to look at each one.

For example today I sold Jul KC calls. The OX margin on a 300 call is 31. I add 62 excess. This total of 92 is less than the margin required (69) for a 260 call. So theoretically I could survive a 40 rise in KC. I know this isn't exact but it comes close.

Also if there is <30 DTE, I ignore the bailing out of the position rule and use excess from other positions to ride it out if it is sufficiently far enough OTM and fundamentals aren't that bad. Like now I wouldn't bail on Apr 65 puts unless there was a major fundamental change.

I know some traders like to have hard rules for exiting but I have never done that. Each situation is different.

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Sure, building it up from basics:
• Vertical spread = same type (call/put), same month, different strikes
• Calendar spread = same type, different months, same strikes
• Diagonal spread = same type, different months, different strikes
[Traditionally a diagonal spread is long the furthest out month, and short the nearest month (which people do to help pay for some of long option they’ve bought)]

• Reverse diagonal spread (because we're option selling, we want a credit spread) = long the nearest month (but furthest out in strike price) and short the furthest month (the more expensive one, but closer strike)
[In a trending market for my system's time frame, I'll sell a single side spread e.g. calls in bear trend or puts in bull trend]

• Reverse double diagonal is doing 2 reverse diagonal spreads (one above the market with calls, and one below the market with puts). It's like an iron condor but with different months (and different strikes), when my system's time frame is signaling 'sideways'. You get the benefit of double perimum on a single margin.

Real example, last Wednesday nights load of the EOD data into my system it generated the following signals to be executed on Thursday:
• Sell June 83 Put and
• Sell June 108 Call

So to create the reverse double diagonal I did the following trades which brought in about $30k in premium on about $17k of margin with IB:

• Sell 30 x June 108 Calls for 0.39 each
• Buy 30 x May 110 Calls for 0.13 each (done as a single spread)

• Sell 30 x June 83 Puts for 1.44 each
• Buy 30 x May 80 Puts for 0.60 each (done as a single spread, 3 dollar spread vs. 2 dollars on the calls was a judgment call, usually I do the same size spread on both sides but I find having a round number in the spread helps get a better relative fill)

I usually do the spreads as equal numbered initially (e.g. sell 30 calls and buy 30 calls) and then right after I'm filled pickup an extra few calls and puts on the long side for black swan protection e.g. in the end I'm short 30 x June 108 Calls, long 33 x May 110 Calls, short 30 x June 83 Puts and long 33 May x 80 Puts. The use of 30 contracts in this specific trade comes from my dynamic position sizing algorithm but it varies with my total account size.

Note most of my system's profits actually come from volatility collapse vs. time decay so I'm usually only in the trade for 3 - 5 weeks when I can take 70% - 80% of the spreads' profit and get out early freeing up margin. I still keep a healthy % of total portfolio in cash however doing my option selling this way is pretty stable and allows a lot of staying power in fast moving markets which helps boost my overall win rate to ~95%.

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Interpretations:

I took this info from Barchart.com

Wheat had a nice move up so I watching. If you scroll all the way to the end of the listed options for a certain month you will see the following:
 **May Contract Options 43 days to expiration** close today..call it 725
Call Premium Total: $52,768.75
Put Premium Total: $163,881.25
Call/Put Premium Ratio: 0.32

Call Open Interest Total: 77,813
Put Open Interest Total: 52,600
Call/Put Open Interest Ratio: 1.48

Close today..call it 725. Real quick the 625 puts are at $87.50 and the 625 calls are at $5,068.75. The 830 (not 825's listed) puts are at $5,418.75 and the 830 calls are at $162.50. Calls outnumber Puts 1.48:1 but the put premium total is about 3x the call premium total.

Here is July, close at 720 with the close the same ratios:
 **July Contract Options 99 days to expiration**
Call Premium Total: $36,387.50
Put Premium Total: $165,937.50
Call/Put Premium Ratio: 0.22

Call Open Interest Total: 60,260
Put Open Interest Total: 46,588
Call/Put Open Interest Ratio: 1.29

I am thinking that the call premium total is lower than the put premium total, even with calls having a higher OI, because there are more puts being held closer to the actual contract price. Most of the calls being held are further out. Is this telling me that most of these calls are bought (not sold by 'us') as long shots hoping that price will rise a lot with call buyers getting in the game on the cheap..hoping? And, the better chances are with the puts being held closer to the actual contract price? I just want to tell myself that i am seeing this correctly and if there is a readable trend here. For instance, the smart money is following the down trend. Now that I think about it I can look at my OX chain that shows the OI/VOL for each strike.....and that's what it looks like.

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Don't think that you made an incorrect trade if crude decides to keep going up and your puts would have lost more value = more potential profit. Since you already exited with a profit then consider yourself 'done with that'. Selling options in crude about $10 away is a little close. Don't beat yourself up about this either. There are a multitude of ways to sell options for profit. Do I want to sell options with 30 days left that are worth $20 each or 70 days left that are $200 each? In most cases if you are writing the $20 opts then your thinking is that you are expecting them to expire worthless because after the commission and exchange fees to sell then buy back there might not be a lot left for the bank. Unless your are someone like uh, who can that be, hmm....think his name starts with an R or something, and you sell 100 of them and after fees and commissions you can still bank a few hundred bucks that is fantastic. The larger your account size the more flexibility you have as far as profit methods are concerned.

If you sell the $200 options then you have more room there to buy those back for $100 and make a decent profit. This is how I approach a trade...Do I want to sell with less time left and let them expire worthless or sell them farther out with the intention of buying them back at 40, 50, etc. less value then what I sold them for? Different ways to approach this endeavor....find your path. Annnnd stay with the thread

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Options selling is a risk vs reward game. The closer you sell to the money, the bigger the reward in terms of higher premiums but your risk also increases quickly.

And no, you absolutely do not need to go after the higher premium to achieve solid returns. You can sell a tiny strangle (only ONE put and ONE call) with strikes that have delta's below 0.10 on many markets and be able to make good money. The other thing is in order to get decent premium at far out strikes with low delta's, you must be willing to wait longer or be willing to trade farther out months where the way out of the money strikes have plenty of time premium.

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No worries about the misunderstanding. Glad you put on some simulated trades to get a better feel of how a strangle works.

Please take note that the hedge benefits on a strangle is limited. When the premium on one side erodes almost to zero, it no longer provides a hedge against further losses on the opposite end. That is why I will not stay in any strangle trade should one side of the premium doubles from where I sold.

Another point that I should mention about my stop loss on strangles is I do not exit during the day should the premium double, it needs to CLOSE at double or more and then I will make arrangements to exit during the next regular trading session should it still be trading at double or more of what I sold at. You may say that I will be taking on additional risk if the market continues to trade against me by waiting until the following day to exit. And my response to that is you are absolutely correct, it is a risk I am willing to take because there have been too many instances where I have seen the premium of an option spike higher briefly during the course of the day only to close below double of where I sold. There is NOTHING more frustrating then exiting at the high premium of the session only to see the premium trade back down at the end of the session. This morning may be an excellent example of that with CL and ES. With the Cyprus news causing an overnight sell off, premiums on ES and CL puts spiked higher but as the day went on, both ES and CL traded back to break even, CL even turning positive. I am sure some traders exited their short CL and ES puts this morning at an inflated premium only to see that same premium go back down by session's end. I need to stress that this is a decision I made based on my experience selling strangles. It is not for everyone and I admit that this has cause me some sleepless nights. And yes there have been times where I did indeed lose more than double the premium. But there have also been many more times where the premium traded at my stop loss double point during the day only to close the session way below that point. And there have been many times where the premium closed at double my entry point only to open the following day below it thus allowing me to stay in the trade.

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Hello,
I am new to this forum and thread but somewhat experienced trader coming around to using this strategy for part of my portfolio. However I have few questions that I would appreciate help from Ron/others.

(1) What part of account is allocated to one commodity? Assuming account of 100k, and say a position of selling June 75 puts of CL for 5 cent at 300 initial margin - how many contracts will be sold?

I recommend at least 5 different commodities, but it depends on the account size. Smaller ones will have to do with less.

So 300 IM + 600 excess = 900. If 20k per commodity, then 22 CL contracts.

(2) Where do I get delta of option? all free quote services that I know only give prices of options - not greeks...Also is there any screener that one can use (like many stock options screeners) for future options?

OX gives deltas on their option chain pages. The CME gives deltas here.
[Daily Bulletin | Build a Report](http://www.cmegroup.com/tools-information/build-a-report.html?report=dailybulletin)

I don't know of any screeners.

(3) Any adding to positions is done or not when it is going wrong way? If so how much? like after selling June 75 puts at 5 cents, Crude drops 2 dollar and now the same put is selling at 8 cents. The premise behind trade crude holding/going up seasonally is still valid and so why not use better prices? but then there is also higher risk and you are exceeding your allocation....

Only if I have money not being used and the reason the market moved against you is not looking like it will continue. But yes sometimes I do.

(4) Does any one uses rolling over of options taking heat? Rolling to further month/strike?

I definitely wouldn't roll further out in time. Deltas will be higher and movement against you will be stronger. I might be tempted to roll to a further OTM strike same month. But I don't remember ever doing that.

Thanks in advance.

Sam

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Very interesting videos of a VERY successful option seller. 30-50% ROR per year.

Host is founder of TOS. Tastytrade video series.

Part 1. 24 minutes
[Trader - made $XX profit in 3 years option trading - YouTube](http://www.youtube.com/watch?v=cXy9HoWX0es&list=PL9B32D5E815ABDE26&index=1)

Part 2. 51 minutes
[OPTION TRADER makes $XX PROFIT in the NDX, SPX & RUT - Her STORY Uncovered - YouTube](http://www.youtube.com/watch?gl=US&hl=en&client=mv-google&v=BquDGE9KxZQ&nomobile=1)

Summary is that she sells stock index options about 17% OTM at 56 DTE. About 250-270 points on ES puts. That looks to be about a 0.0200 Delta or lower.

Only one losing month the last 2 years.

Definitely worth your time to watch. If this doesn't make you excited about selling options nothing will.

Thanks to @[***lrfsdad***](https://www.bigmiketrading.com/trading_member/35277-lrfsdad.html) for linking to these videos in another thread.

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<https://www.bigmiketrading.com/options-cfd-trading/12309-selling-options-futures-117.html>

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I think Ron has made it pretty clear what he is doing with Nat Gas and you know what my position is. I don't think there is anything wrong with following some trades (that is certainly what I am doing in this thread), but you will need to understand why the trade is being taken and as Kevin mentioned, you need to determine when you will get out.

Most importantly you need to define and accept the risk. This is true with any type of trading. Before I got into this trade (or any trade) I determine the risk.

So to put it all out on the table here is my NGM35C trade:

I started looking at this trade based on Ron's recommendation. I looked at the fundamentals (like supply and the weather) that Ron pointed out by doing various Google searches. Essentially the supply side is weak (which has driven up demand recently), but demand side is largely driven by weather which has been warm and is going to get warmer. Additionally, a few pages ago Ron mentioned that supply side shifts will likely occur if prices move higher. Overall fundamentals are neutral short-term more bearish long-term IMO.

I went and looked at the seasonal tendencies (and even asked Ron about those a few pages ago because they break down into two types of seasonal variances) - [Natural Gas Futures (NYMEX) NG - Seasonal Charts](http://www.ccstrade.com/futures/natural-gas-futures-ng/seasonal/). I noticed that prices tend to either rise from recent lows or fall from recent highs. We aren't at recent lows so it would make sense that we more likely fall or consolidate around recent highs.

Next I went and looked to sell calls (since I'm neutral to bearish) in the intermediate term and I looked for delta at 0.02 and all the good things that Ron has mentioned in this thread regarding getting a decent return on our margin.

This morning I entered NGM35C at 0.005, 3 contracts, delta at 0.04 (things moved up pretty aggressively this morning), for $135 in net premium, $733 margin, $1465 buffer and DTE of 53 for an ROI of 3.07% per month.

Most importantly before I got into this trade I determined the risk I was willing to accept. Per Ron's rules (which I am attempting to follow verbatium to learn on a small account) I will exit should the price moves against me plus the increase in margin exceed my buffer. Going through the current options prices gives me an idea of where that is. If the price moves up to 4.8 I would be forced to bail. When I calculated this trade 4.8 was trading at a premium of $440 for 3 contracts. This is my anticipated max loss.

This gives me plenty of buffer regarding the current events to see whether my hypothesis is correct. As Ron points out, if I find that my hypothesis is wrong - say weather gets colder in the next few months then I will get out before or at my max loss.

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<https://www.bigmiketrading.com/options-cfd-trading/12309-selling-options-futures-127.html>
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Kicking things around....again.

I have been mulling over the prospect of a weekly strategy with the mini500 since there are weekly options available. I am just throwing this out there for anyone and everyone to rip apart, make suggestions, and to entertain any criticisms as well. I am thinking of a put ratio spread with a few curve balls. This could be a buy one sell two (1:2) or 1:3, 2:4, 2:6.....whatever ratio as long as the net from the sell side of the short options is greater than the options purchased and it has a worthy ROI.

Puts only due to the fact that the premium is there for the further OTM puts vs the further OTM calls...the market can fall further quicker vs. the market rising further quicker.

Curve ball #1: The put(s) bought would not be [ITM](https://www.bigmiketrading.com/wiki/trading-wiki/ITM) like a 'usual' spread making this a weak ratio spread? Call it what you will. The reason for this is because if you buy the put too close to the underlying then your net sell premium is lowered unless you sell a greater number of puts or sell closer to the underlying. But, that would add more risk and required margin.

Curve ball #2: This would have to be put on every Friday when the weeklies are listed to bank the max time premium from the options sold. However, Fridays can be large economic news so some Fridays might have to be avoided due to the volatility spikes.

Curve ball #3: How far away to buy the put and how far away to sell the puts? They would have to be closer because of the shorter time frame (vs. the 56 DTE per the videos) for the sold options to have the premium unless you sell a lot of them like 1:5??? That might be a change up. Anyway, If you are selling a week away then this is where the probabilities come into play. If the market does start to drop your bought put(s) will gain value as long as this happens in the first 1 to 3 days(?) and by what percentage? If your sold puts are still 5 to 10% away with a few days left there would have to be some dramatic news for the markets to drop that far that fast if you sold the long put(s) for a profit and held the short puts until expiration.

Curve ball #4: If the market does drop but you are 'certain' that your sold puts will not got ITM because of your expert moon phase biorhythm analysis indicator and your long put(s) are gaining value, at what point (% or $) do you sell the long put for a profit and let the short puts expire worthless?

The long puts are there for a little insurance and to lower the margin requirement. But, I am thinking that if the long puts expire worthless...who cares? The main objective is to make money from the short puts per the initial trade.

Why even buy a put(s)? Because of the possibility of make a little on that also along with some insurance and reduced margin. **BUT:** Be prepared for you margin requirement to increase if you sell the long put for profit and still hold the short puts.

I don't have any historical option data to look at so I'm waiting on Friday to see the actual weekly premiums....

Hit me back....

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I worked through getting a more real life accurate ROI% for selling options.

Using that 2.1% from the prior example.

Reducing the cash excess the last 14 days from 2X to 1X at 14 days (if the option is still far OTM) and then 0X at 7 days reduces the excess factor from 2X IM to 1.4. That turns the 2.1% into 2.8%.

The margin drops off when the option gets closer to expiration (as long as futures don't go the wrong way) Assuming flat futures, the margin will average 65% of the IM at 56 days (calculated using SPAN for ES options weekly and EOM). That turns the 2.8% into 3.8%.

Compound the 3.8% monthly and in a year that equals 56.4%.

So 2.1% sounds low but 56% sounds real good to me.

The real life formula now is

option premium-fees / (IM\*.65\*2.4) / DTE \*30

This gives you monthly ROI%. Then this number needs to be compounded for a year. I did that using a spreadsheet table. (is there a way to do that in a formula?)

Does that calculation look correct?

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| Is there a formula for monthly compounding that can be put in one cell on excel? |

Try this based off of the formula for future value.

=((1+A1)^12-1)

Just put your monthly ROI in cell A1.

Real world ROI% with monthly compounding
=(1+ (option premium-fees / (IM\*.65\*2.4)) / DTE \*30)^12-1

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I tried something a little different the last month.

On 3/19 I sold 5 ESm3 1000p options for 0.50 or $25 in one of my very low risk IRA accounts. ES was 1542 that day. Delta was .0040. Very low. They were very far OTM (542). 95 DTE

I immediately placed a GTC order to buy them back at 0.10 or $5. Today 2 of them traded.

So I held those 2 for 24 days.

Per contract.
3/19 IM 128 excess 256 If kept to expiration 1.8% monthly ROI. Or 3.4% real ROI per month. Decent but not that great.
4/12 IM 52 excess 104

So if you average the 384 IM + excess when i put them on and the 156 IM + excess when I bought them back you get an average of 270 IM + excess held for that position for 24 days.

I netted 12.88 each. $12.88 / 270 = 4.8% ROI for 24 days or 6.0% for 30 days. That's a real good ROI for something that low risk.

Of course ES went 40 points in my favor so that shortened the time held. But even if I held them 30 days the 4.8% ROI for a month is very good.

I'm sure you could move to a higher strike and do as well. You just wouldn't want to move too high because options about 95 DTE are more volatile since they are closer to [ITM](https://www.bigmiketrading.com/wiki/trading-wiki/ITM).

Some traders in this thread have been selling and then buying back before expiration. I wondered the ROI of that and paying another set of fees vs riding to expiration. It looks good to me. Thanks for teaching me something new.

I'm sure my brokers will be happen to get a lot more commissions.

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I think the recent violent movement in the metals and energies is a good thing as far as trading psychology is concerned. You have to remain humble as a trader. Losses in trading can be a good thing because they are a learning experience. Were you over-positioned? Did you enter a marker because you felt that you must be in a trade = no patience to let the market come to you? Under-capitalized? No exit plan?

Losses are part of trading and the **markets always have the final answer.**

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**ROI forumla explained**

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ron99-

Can you please clarify your monthly ROI formula for me? The formula you posed earlier was

First of all did you mean
1. option premium - fees / (IM\*.65\*2.4) / DTE \*30
2. (option premium - fees) / (IM\*.65\*2.4) / DTE \*30
The first is the one that makes sense to me mathematically.

The second one is correct.

Secondly, is DTE \* 30 suppose to have its own parenthesis? Or is the entire equation multiplied by 30.
1. ((option premium - fees) / (IM\*.65\*2.4) / DTE) \*30
2. (option premium - fees) / (IM\*.65\*2.4) / (DTE \*30)

If you put the formula into excel then you don't need parenthesis for this part.
Both(option premium - fees) / (IM\*.65\*2.4) / DTE \*30
and this ((option premium - fees) / (IM\*.65\*2.4) / DTE) \*30 should give you the same answer.

Third, where did you get the constants you multiply by the initial margin (IM): 0.65 and 2.4? Do they have any meaning?

From the post. For the 0.65. "Assuming flat futures, the margin will average 65% of the IM at 56 days (calculated using SPAN for ES options weekly and EOM)."

The 2.4 comes from using 2X the IM when the position is put on for cash excess and then dropping the 2X to 1X when the option is close to expiration and still far OTM. And then dropping the 1X to zero if still far OTM and very close to expiration. So the excess comes to 1.4 and then you add 1.0 to that for the margin to get 2.4.

Sometimes you may have to keep 2X the entire time. In real volatile times I have gone to 3X. But the 2.4 is an approximate average.

Lastly, the units of the final result: is it in percent (%)? If the equation returns "1.0". Is the result 100% or 1%?
The answer is in decimal. Format your excel cell to be a percentage. So 0.50 shows as 50%.

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| **ES** opts,I'm fairly new to posting on the board here. I use volume profiling and auction market theory for my market analysis. As part of my analysis, I look at a long term chart that has daily bars that are set to 405 minutes per bar ([RTH](https://www.bigmiketrading.com/wiki/trading-wiki/RTH) session minutes). From there, I look at days/areas that are "in balance" meaning they are in a range. Conceptually, the market moves from balance to imbalance and back to balance...it does this on all fractals of time. On the larger timeframe, I am looking for these balance areas above and below where ES is currently trading and will determine what I think is support and resistance.Also, I use R Project (R Studio) and a data set that has 322 weeks in it to run some stats. I look for most common weekly range, two week range, distribution of range extension past previous weeks highs/lows, etc...I put this all together and get areas, or strikes where I think (and Ron as alluded to) the market is not likely to go in the period of time represented by the time left to expiration.Once I have my areas outlined, it's time to wait for an opportunity. Those opportunities come when there is a big-ish move in the market and volatility increases. As the market moves and IV expands, further OTM option values expand with it...I want to get into deep OTM options as the IV's are increasing.For example, on 4/15 as the market was going down, I scaled into 1465 puts. I sold my first bunch at 2.00 and then at the end of the day, I sold my second bunch for 3.15 giving me an average entry price of 2.57. My plan was to add another bunch if the value of the strike moved into the 4 - 4.30 range.The stop on the position is always 2X the average entry price, giving this a 1:1 R/R.Once I have my position, all I can do is sit back and wait...I'm either going to get stopped out or the contracts I sold will expire worthless.It doesn't always work like this every week...in this environment, it's been hard. There have been some Friday's where I don't have anything expiring...but, this is the way I know how to do it and I can force a trade that doesn't fit. Hope this has been somewhat helpful.  |  |
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| Hi homerjay, sorry for v delayed response, just going through saved posts in this thread - so many good posts to wade through!some questions if you have time to answer:1. is your position sizing based on the Van Tharp method? His book is not in print, and cannot seem to find anywhere online. can you provide some basic detail re how you position size? 2. re the big GC sell off in april - did you have an open position? if so how did you manage the exit? and how did it impact your margin requirements?3. do you put both ends of the reverse diagonal trade on @ the same time or do you wait for a possible rebound after a high vol move to get favourable price on the 2nd leg?4. the bid/offer spread is often quite wide do you put your spread orders in @ midpoint? or do you try & work out fair value price? eg + OCT13 122 Call - NOV13 120 Call is -0.17 bid @ -0.01, wld you be happy to put a bid in close to the midpoint say @ -0.10? 5. re volatility measurement - are you using std deviation over the DTE for entry? also to manage trades do you use the greeks? & is that at portfolio level or on security / trade level?thks for your time. |

Apologies for the very slow responce!

1. You can order his book from his own website at [Trading Education](http://www.iitm.com/). He doesn't cover option selling directly so had to apply the general principles, basically I spilt my trading dollars into 'units' and each trade gets the number of options that my margin for 1 unit will support rounded down. It's dynamic to my balance so changes for each trade (and each market given different margin amounts), since I trade 3 to 4 months out and a signal in any market 'blocks' new signals for about 2 months so size does change quite a bit over time. I use his concept of 'market money' so I risk a bigger % of profits vs 'investment dollars' until I hit my next equity goal (200k above my last one) at which point I reset to a smaller position size as I 'capitalize' gains as if they were part of my initial investment dollars.

2. My system had me selling call spreads only so I took my profits quicker than usual in this case.

3. At the same time, my system does the hard work so I just make the trades the day I get a signal (I use end of day data on the underlying as input into the system).

4. Typically I enter slightly less favourable to the midpoint to get a quicker fill, getting in on volatility spikes generally means there is more activity vs. selling on 'normal' days and I only trade the markets I consistently get reasonable fills in so have dropped the super wide spread markets.

5. I use my own custom indicator that uses an ATR like calculation at the weekly level on the underlying assets price movement as a % of closing price and compare that to the full history for that market (eg going back 40 years for some markets) and only enter in the top x% of values (and x varies by market). The ATR is adjusted so that downward price movement gets a higher weighting than up moves (because this seems to better indicate when a higher ROI will be achieved selling options). I actually use very little of the Greeks directly now that I trust and really understand what my system is doing, but given I'm mainly profiting from volatility collapse I still keep an eye on them. For example given the absolute low IV level in the S&P500 I'm not taking new signals for these index options until they return to more normal readings (which may take years, but I've got enough other markets to trade in the mean time) as otherwise I'm risking the same amount of dollars in 1 'unit' but taking in a relatively low amount of premium and a lower ROI expectation vs. commodity futures options.

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**ES Options**

ron99

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| IM @ OX $2,984.30. We use 2X for cash excess. Friday's settlement 0.95. 14 DTE for Friday. I'll use OX commissions and fees of 4.07.((47.50-4.07) / (2984.30 x 3)) / 14 \*30= 1.2% monthly ROINow I see it is bid at 1.90. If the margin does not go up by the same percentage as the premium today then ROI would be higher.I haven't followed this enough to know how the margin would react today. Does the weekend time erosion make up for the increase in futures price today and margin doesn't increase? Or is it so close to [ITM](https://www.bigmiketrading.com/wiki/trading-wiki/ITM) that the margin increases anyways? |

Thank you for the walk through of the formula Ron, I appreciate it.

Margin on that strike is up from 2984.30 in your example to 3252.00 now and that strike is bid at 2.00. That brings up an interesting question about margin expansion in relation to price movement...that is why I was asking about whether PC-SPAN will calculate margin in different price scenarios...but you said it doesn't.

That increase with this strike's margin from when it was bidding .95 vs 2.00 was about 9% from 2984.30 to 3252. I haven't done any studies on this, but I have noticed that when I'm getting stopped, margin will have increased by about 750 - 1000 from the IM. I will be well out of the position by the time the IM is doubled.

I wonder if I modified that calculation to account for this, instead of IM x 3, it's something like IM x 30%, then the ROI for the strategy I'm using would be a little more representative.

Also, what is the "30" at the end of the calculation?

Thanks again

The 30 gives you the monthly ROI. When you divided by 14 or the DTE that gave you the daily ROI.

So TOS changes margins during the day. OX doesn't. Or was TOS changing a higher margin than minimum from Friday.

Did that margin increase from where it was after Friday night but before this morning?

I just ran SPAN and it says margin is $3,007. I have no idea if the Trade Calc in OX is giving us the right margin.

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| I wonder if I modified that calculation to account for this, instead of IM x 3, it's something like IM x 30%, then the ROI for the strategy I'm using would be a little more representative |

Actually you would use 130% or 1.3 because you have to have 100% to cover the IM. Then you could add 30% for excess if that is what you use.

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| To clarify, Buy the 1630 Call @1.10 and Sell the 1620 Call @2.35 (Yes the bid the just went up by 0.05).The required margin will be $1,000 ($10 the difference between the strikes\*100).The reserve I hold would be $705 ($2.35\*3 times) if my strategy is to get out when the price of the call doubles. The extra $2.35 is for the times when the price gaps up and I won't be able to cover exactly at 2 times the price.The price of the call you bought will also increase but you need to have enough funds to FIRST buy back the sold option. You won't be allowed to sell the purchased option while your sell postion is open (or then you will have to put up the margin for a naked option). |

The information you provide is interesting and bears further thought/discussion.

If I were to sell one vertical, 1620/1625 in SPX expiring in 11 days, the credit is .65 ($65) and the margin is $446.49 per spread (In TOS).

I understand my risk is the difference between the strike prices minus the premium received or, 1620 - 1625 = 5.00 \* 100 = 500 then, 500 - 65 = 435 + comish for my risk.

You raise a good point about gaps...I take it that these options do not trade 24/5 like ES options do?

Also, what are the tax implications for trading SPX options vs options on futures? I like how I get one 1099 for my options on ES trades. What do you get for SPX options?

Are you actively trading spreads on SPX now? Could you also explain the calc you used with your reserve a little more?

This is interesting information...I'd like to hear more.

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<https://www.bigmiketrading.com/options-cfd-trading/12309-selling-options-futures-150.html>

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Here is my post from a year ago when I didn't play it. Big mistake.

It is basically playing the seasonal May drop.

Quoting

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| You could have bought July CL puts on May 1st pretty cheap and then sold then last Friday for HUGE gains. On May 1st the July 85 put was 0.12. On Friday it was 1.01. 742% ROI. In only 17 days. The 90 went from 0.27 to 2.30. 752% ROI. The 95 went from 0.60 to 4.78. 697% ROI. The 100 went from 1.34 to 8.67. 547% ROI. Notice how the ROI was better on the 90 than the 100. But you need a large movement for that to work.CL & ES had dropped significantly the beginning of May the last 2 years ("sell in May and go away" is the old saying). I was waiting for it but didn't want to put on the long puts before the May 4th employment report in case it was bullish. After the report was out I thought I had missed so much of the move, it was already down 7.67 in 3 days, that I thought I was too late and didn't add any then. |

<https://www.bigmiketrading.com/options-cfd-trading/12309-selling-options-futures-14.html#post223282>

Buying about 15.00 away on Jul CL seems to give you the best ROI.

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This is sort of the same thing that Ron commented on with the data tables presented a few pages back along with a266199 and the statistical info he posted

OK.....

I've been away for a few days. Went to see The Smashing Pumpkins play at the St. Augustine Amphitheater and they sounded the same as the last time I saw them almost 20 years ago. They kicked a$$!!!

Anyway, I'm back home, it's Saturday night, 3 hours of the Big Bang Theory is on for which I have seen every episode at least two or three times, and I'm looking at data. At least that data pertains to the markets and why we are here so please only categorize me as a geek only about 75% of the time.

I downloaded the weekly data for the SP500 and dumped it into Excel to be able to see it in a different way. Some people can see trends looking at numbers, some people can see trends by looking at things visually. I'm a mixture of both and this chart is just a quick representation of the latter. I simply plotted the total weekly point change in the SP500 (SPX) and what the value of the RSI14 was for each weekly SPX point change total. Why the RSI? Because it is one of the few indicators I follow.

The x-axis(weekly date) is buried in the middle of the chart and is plotted at the zero line of the y-axis. I did not label this because it would be hard to see almost 500 labeled tick marks. The y-axis is the point change + or - for the weekly total (gain or loss) of the SPX along with the value of the weekly RSI14. The blue points are the SPX values and the red points are the data points for the RSI. You can clearly see the graphical line representation of the RSI here as it would be plotted on a chart.

There are a number of things that can be 'seen' on this chart: **These are all weekly changes in the SPX**

1) Since 10/10/2003 the SPX has moved more than 100 points only 2 times

2) From 10/10/2003 until about early March 2007, about 99% of the time the SPX had a weekly change of less than 50 points

3) Since early March 2007 the volatility of the SPX has increased as can be seen by the larger weekly change (plots)

4) When the RSI shows a 'normal' oscillation from about 40 and above the range of the SPX has always been less than 100.

5) The red outlined boxes: When the RSI **begins** to gets below about 40 (the left side of each box) the volatility in the SPX increases also. We are now in a 'normal' oscillation with the RSI and although the range of the SPX is a little larger than the beginning of the chart, the range in the point values are smaller versus the areas of post oversold RSI territory. The world economy has changed somewhat versus what it was about 10 years ago so more volatility (larger weekly change) can be expected.

6) RSI looks like it wants to make another wave down = weakness ahead???

If someone can suggest another indicator that might be more representative of the strength or weakness of the SPX vs. the RSI let me know and I will plot it also.

I pulled this data from [FreeStockCharts.com - Web's Best Streaming Realtime Stock Charts - Free](http://www.freestockcharts.com/) and it is free. All the indexes are there and ETFs also. Unfortunately there is no futures data here but at least the index data is there that can be used for the futures indices. When we started talking about option credit spreads (iron condors anyone???) my brain kicked in. I'm considering stock option credit spreads also and this is a good source of data to dump into Excel to 'see'. If there are opportunities there aside from writing futures options uncovered that I still plan on doing, I want to be able to explore (and exploit) that opportunity....

There are a few episodes of The Big Bang Theory left for the evening...gotta go.

May the 4th be with you.

Attached Thumbnails

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Opts, I f you are thinking about SPX credit spreads or Condors have you looked at the stuff doing the rounds from Doc Severson at Options MD.

He concentrates on two types of IC.

1/ HP (High Probability) IC which looks at 10 deltas on $2 SPY spreads. He shows an example in his videos of 166/168 call and a 146/144 put and looks for a 30c credit with a 170c risk, or 17.6% ROI. This gives a 200 pt (ES) price range.

but the one that intrigued me more was...

2/ The LP (Low Probability) IC which uses the SPX and looks for 30 deltas on a $5 spread. The example was a 1620/1625 call with a 1535/1530 put. So on a $5 spread he aims for $2.50 credit with a $2.50 max risk.
This makes it a 1:1 risk/reward with a 85 pt price range (in this case).

He considers this to be the Professionals IC. Why?

A Black Swan event would do much less damage than with the HP IC.
Would need to be actively managed, so you would not automatically be expecting it to go to expiry but be happy to close out early with whatever profit is available. As the strikes are closer to ATM and higher in value they lose that value quicker than with the HP IC.

I should add that I am not making any recommendations and have not bought his course. I just thought it interesting in light of previous discussions here.

Brit

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As I said, we normally aren't this close to the fire...but market conditions have been extreme.

In the ES, we are comfortable selling calls relatively close to the money as long as we do it on large spikes in volatility and in overbought conditions. In general, once the ES has made a big run the upside is rather limited and ideally the options are overpriced...so even if the market creeps higher, the options shouldn't pick up a lot of value. I would never sell puts that close to the market. ES puts we try to stay 80 to 100 points out.

We sell options a little differently than most...we don't just sell and wait for time to erode. We are trying to sell into sharp volatility, with the goal (although it doesn't always work out as planned) of exiting the trade within a week or so.

This particular crude trade hasn't been our ideal scenario. When selling crude strangles we typically wait for a few big price swings to sell a strangle at what we think will be top dollar. The strategy is to sell a strangle with about 50 days to expiration for anywhere between $1,000 to $1500 and then buy it back within a week or two once 40 to 60% of the premium has eroded. We've managed to do it successfully multiple times, but this time around we've been working hard to correct our poor timing/insight/luck.

This type of "hit and run" approach to selling volatility doesn't work with options that are too deep out of the money. Also, most option sellers opt for deep out of the money options, but they sell them in larger quantities than would be the case if they simply sold a little closer to the market. I've found that when things get rocky it is sometimes the ridiculously distant strikes that see the largest percentage in premium explosion. So in some cases I like the idea of selling a low quantity at a closer strike.

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| My brain hurts....Credit calendar option spreads with a twist...Not sure what the correct term is for this strategy but consider the following: |

This is a diagonal spread (different month and strike).

opts

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| It is the month of May and a future (or stock) is at 50. Your directional bias is barely bullish to neutral. You want to enter on a put option credit spread such as the following: |

Calendar spread is great for "barely bullish to neutral" market. You buy July and sell June, time decay is faster on the front contract (June) therefore it yields a positive return.

opts

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| Buy the June 45 put for 1.00 (call this $100).Sell the July 40 put for 1.50 (call this $150; higher premium because of more time value).Net credit is .50 = $50 |

Here is the problem. Usually when two contracts are one month and one strike apart, their price are very close. For example, Ebay closed today $53.94. June 45 put is $0.14/0.15, July 40 put is $0.11/0.13. There is no room for collecting premium. If you go one strike higher, the June 50 put ($0.58/0.60) is more expensive than July 45 put ($0.36/0.37).

Let's suppose that you do find such price and entered positions as mentioned above:

opts

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| The market goes up and you decide to exit the trade say at .10 for a net credit of .40 or $40.The market goes sideways and you decide to exit the trade at .10 for a net credit of .40 or $40. |

In both cases, the June contract would gradually approach to zero. However, the July contract should still retain some time value, say $0.40, making this spread unprofitable. Only when price increases quite a lot, then both contracts would not have much value left so you get to keep the premium.

opts

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| The market goes down = against you.The June put you bought is gaining value as is the July put you sold. The June put you bought is closer to the underlying and 'should' **(this is the main question)** gain value faster than the further out July put you sold. You sell the June put for a profit. Your July put you sold is now uncovered and 'dangerous'. You immediately purchase the July 41 put and your are now is a bear put spread (buy the cheapest put to enter a bear put spread) that may cost you zero to enter, pennies to enter, or might even end up with a credit after you sold the June 45 put for a profit. The market continues down to 38 and you exit the bear put spread for a profit.Tell me what is wrong with this scenario?I have been thinking a lot the past few days.... |

This is the best scenario if price drops quite a bit. You can have probably $400+ profit if price drops below $40. In my mind, this is actually a directional play.

I myself am still learning and observing option price behavior. Eager to see other's comments.

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Here's my take on Coffee.

The specs have been short KC futures for months. Short 26k on 3/19. But not enough of them took profit the next 6 weeks while KC stayed in a tight $10 range. As of 4/30 they were still 19k net short.

Now we get into the cold times, possible frost, right before harvest. Last night it was 37 degrees in the southern most coffee grove region (but most of the groves are further north now). The lows are seen rising into the 50s the next 10 days.
[Monthly Weather Forecast for Ponta Grossa, Brazil - weather.com](http://www.weather.com/weather/monthly/BRXX0184)
Here are the coffee growing regions.
<http://www.brasilbar.com/blog/wp-content/uploads/2010/11/coffeeregion.gif>
Ponta Grossa is southwest of Sao Paulo on the map in Parana.

So now the specs are scared of giving back their profit so they are running for the exits. OI for all KC futures are down 6.4k the last 5 days when futures increased 9.45 (not including today). Problem is that there is a very good harvest coming in. The weather is dry and good for harvest. World supplies are strong. Demand is barely higher. This will put a lid on KC. Probably 150 max.

So in hindsight we sold early. But the last 3 years KC has been down in May. The specs were 13k net short last year and prices dropped in May.

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Ron,
You asked how to calculate probability of an options finishing ITM. Below please find a calculation:

Excel:
1-NORMSDIST(LN(Strike/Tradeprice)/(historicalvol\*SQRT(Daystoexp/365)))

The ES is trading at 1641, so my notional is 1641\*50 = $82,050

If I sold 20 puts, my theoretical worse case leverage is $1.6M upon exercise. I can sell 20 puts with $60k at a 27 time leverage on my cash. It is worse with my spread strategy :-)

The leverage is huge.

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| Where do you get historicalvol, UnZane? |

You can also use implied volatility

This link can help you calculate

<http://www.cmegroup.com/market-data/datamine-historical-data/methodology.html>

lol - imagine a link here for you ron - I have to post another three post before I can share

Let me know if it makes sense. Any heartburn of the notional value of your account and leverage?

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ron99

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| When I calculate a Aug 1300 ES put with 64 DTE with 28.88 IV when ES futures are at 1631 I'm getting 0.96965. (I'm assuming that I convert 28.88 IV to .2888)What does 0.96965 represent? I'm guessing it's the chances of being OTM not ITM.If I remove the 1- at the front of the calculation the result of 0.03035 or 3.035% makes more sense to me.The 1- is needed at the front when doing calls. It is not needed when doing puts.So am I correct thatExcel:NORMSDIST(LN(Strike/Futures Current Price)/(Implied Volatility\*SQRT(DTE/365))) in a percentage format would give me the chances of an option being ITM? |

Correct! The formula is an adaptation of the black scholes model.

I attempt to understand all calculations before using them, so I do not use an indicator that I cannot build from scratch.

Barrington

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| I just tried it on the OX Trade & Prob. Calculator - 1300 ES Put with 63 DTE and changed the IV to 28.88. It gives me 3.57% probability of ending ITM. ESU = 1622.75 |

Please remember that IV is different that historical vol. IV is derived from the strike you choose to sell, so deeper OTM options have higher IV. In essence, you need higher volatility for the price of the option to achieve the premium traded. Historical Vol represent the true vol of the underlying.

All that to said, your prob of ITM is higher if you use the IV from the strike traded.

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Cogito ergo sum

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| I am not really familiar with selling options on futures, as opposed to equities. Knowing that at ~60 days theta starts to really work in your favour, why sell options on futures +60 days till expiration? Are you essentially using the contango or backwardation in these futures to offset the slower decay in the longer dated options? |

ots
You'll probably get several responses to this and you are probably aware of most of this but:

During the last month or so options lose their value very quickly and the options/premiums that were in a good area to sell about 40 or 50 days ago may not be worth the risk with 30 days left. The way that I approach selling is with about 60, even 40 days sometimes, options that are still 30 or 40 % away from the underlying (ex: crude, natural gas) can still have a $ value of $30 or more. So, I ask myself what can move the market and what are the chances of a 30 or 40% move in 40 or 50 days? The answer is always "Anything can happen" but when you trade, especially with this method, you assume the risks. But, the probability is very low of that move. $30 per option may not seem like lot to bank but sell 10 of them, sell 50 of them and you will start to think differently about this. HOWEVER: UNDERSTANDING HOW MARGIN WORKS AND HOW IT CAN CHANGE DAY TO DAY DEPENDING ON THE MOVEMENT OF THE UNDERLYING IS CRITICAL. When selling options that are this cheap the goal, or at least mine is, is to let these expire worthless. I look for deltas around .02 +/- If i really like the market that I'm selling in I will go for deltas with .03 or +/- and the options might be priced at $50 or more but I do buy those back at $20 or $10 per. Those usually have more time premium (60 days or more) when I initially enter but if I have already banked 70 or 80% of the premium I will buy those back to free up that margin for the next opportunity. I don't like to lock up margin on a trade that is already 80% on the plus side to me but still have to wait 20 or 30 days for them to expire for another $10 or $20 per option.

There is chart reading, seasonal, fundamentals, Middle East, weather patterns, etc. to consider before entering the trade so it's not as easy as looking at an option chain and 'picking that one' Again, I am sure you are aware of all of this. This is how I approach this method.

Hope some of this helps.

Cogito ergo sum

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| Thank you for your explanation, I will check out the site when I have the chance. That makes sense, I probably stick to Index Futures till I finished a few books regarding options on futures. I like the strategy, and I know that some are doing this very successfully. What do you generally do when a position moves against you; keeping margin in mind. Do you spread into other structures such as Iron Condor's or do you simply close the trade? Or do you use a psychological stop loss? |

This is why I prefer to sell options valued at $30, $40 or $50 per. If the market moves against me and that premium doubles I'm 'only' down half of that value since I collected on the sell side. On the other hand, for some traders that may sell those same options with more time premium at $300, $400, or $500 per and those premiums double that is a different scenario because the margin requirements are higher (percentage based) with the extra time premium. But of course, account size is critical vs.the value of the position and each trade based on a $10,000 or $100,000 account should have the same risk per account. Just because one account is larger than another the ratio of the risk or ROI as Ron pointed out should still be the same. It's all about ROI.

If I have an option double, say a call option from $30 to $60 in one day then there is a big event happening very fast. If it takes 10 or 20 days for this to happen there might be an obvious change in the current trend. I haven't had the first scenario happen to me but yes on the second. If the first instance happens then "Why?" if really bad news get out quick take that loss, let the market react, settle, then sell calls again later to make up for that previous loss to break even on the initial trade. Again, haven't had to do that yet but that is my plan. But, I will not chase a market. It might be weeks before I enter that same market to get to that break even on the second trade. If that trade gradually doubles then there is more time to determine "Why?" and what can be done. If there are 20 days or so left and the options are still 20% or so OTM then eventually the delta and the value of the option is going to fall because of the short time amount of time remaining. This has happened on the put side with crude with me and I let the up days give me confidence that my position is safe and that the market is just doing it's thing. Even these options were still $15 OTM and there was no reason for crude to go back down to $70 per barrel.

Soooooo, for me it is really the reason "Why?" then get out now, sell again same direction at some point later or wait it out and let the gradual decay of the premium and greeks do their thing.

This is a very unique method of trading and if someone hasn't done this before it can take a lot of patience to realize a profit. I've done a few quick trades with ES option but event those were about 10 days, that's quick when selling option. Most people here will tell you it takes 30 to 60 days or so to close a trade. And, I think very few people here sell options with $400 premiums according to some literature that is floating out there because you are simply locking up too much useable margin. The best thing to do if you have not done this before is simply watch the option premium along with a market, crude is a good one, for about 3 months and see how the options move. Take note of far OTM options in particular for a contract that is 30, 60, and 90 DTE. Watch the same few strikes of puts and calls on either side and see how they move. Very boring but the probabilities are higher.

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Something to bear in mind when thinking about theta/time decay. The well known statement that time decay is at its greatest about 60 days from expiration is more applicable to at the money (ATM) options than for out of the money (OTM) options. In the equities world this isn't a big concern because you can generally only get options a few strikes out from ATM.

For Futures Options (FOPs) and for the traders in this thread in particular, you can trade extreme far OTM options. For OTM options, the rate of decay is almost linear throughout the life of the option. Even when at >60 days from expiry, the deviation from linear decay is very slight. So with these far OTM options, we get very little extra time decay benefit from being within 60 days.

+image

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ron pag181

Since I am selling far OTM options, many of them get to the lowest price possible at 20-50 DTE. So there is not much profit left at 60 DTE for them. You have to go further out in time to sell option that far OTM and have a worthwhile ROI.

For example the Oct CL 65 or less puts have virtually no Theta left with 69 DTE. The price is at 0.01. Theta worked in your favor far before 60 DTE for them.

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I look at 30 to 50 DTE and about $30 or more away from the underlying on both sides; puts and calls. Looking to bank no less than $30 per option. You have to be careful selling calls in this market because of the ever-present Middle East volatility factors that can erupt over night. I tend to sell calls when the market seems to have already made a high or some king of pull-back in a downtrend. I would strongly suggest not selling calls below 120 or puts above 75. We had a large move up on Friday and calls can get inflated more next week pending any further move up. Keep an eye in tropical storm/hurricanes in the Gulf of Mex this time of year. Strorms will shut down oil platforms and prices go....up. Lots of recent news saying oil too high and must go down. That's been "said' for over a month and look where prices are now...haven't come down too much. So, I haven't sold puts in a while, only calls above 130.

Selling the puts in the 75 area is a good 'location[' to keep an eye on.

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| Hi Ron,When you are looking to sell CL options, what sort of DTE do you generally start looking at?Regards,bakes |

I look at 60-90 DTE for puts and 45-60 DTE for calls because time erosion is slower on calls-----------------
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Kevin, my main surprise was that your strike is higher than any strikes I have on. None over 1400.

My research yesterday found that the ROI was highest for ES puts that were 335 less than futures. 285 & 385 had lower ROI. 385 OTM were significantly lower. 285 OTM was slightly lower than 335 OTM.

I used 1685 ES futures and 1300, 1350, 1400 Oct puts and 100 or less DTE. Best ROI for the 1350s was on at 2.60 to 1.90 (delta 0.031 to 0.028) and off at 0.35 to 0.25. This was assuming flat ES futures.

Putting on puts at those strikes at a price higher than 2.60 gave a lower ROI because of greater DTE, which caused the margin to be higher. You have to go to 100 DTE to get a premium of 3.50 on a 1350 put when futures are 1685.

The time erosion of the premium hits hardest when the prices go from 1.25 to 0.25. Or when the delta goes from 0.015 to 0.005.

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For CME products <http://www.cmegroup.com/tools-information/build-a-report.html?report=dailybulletin>
Use the PG01 & PG02 reports for totals by commodity. Other reports lower on page for each contract.

For ICE <https://www.theice.com/marketdata/reports/ReportCenter.shtml>
Use Category-End of Day Report

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| Hi, Ron99Was wondering if you could share more info with me about your risk management in your trading system.1) Do you have a criteria with closing a lossing positions (margin, PL or smth else)?2) Do you have a statistics of your average profit and losing position? |

1) I generally look at the excess margin I had when I put on the position. If that is used up then it is time to move on. But I don't strictly adhere to that. I look at why the position has moved and use that to determine whether to stay or leave it. But it takes years and years of experience trading to get to that point. I have been trading 15 years.

2) For 2012 Short options - 746 trades of 5,034 contracts = 150k net profit. A lot less contracts than 2011 but more profit. 99.7% winners.

2013 will not be as good. Lost big money on $200 2 day GC crash.
So far 730 trades of 8,211 contracts = 159k net profit. 95.5% winners.

Average net profit
2012 $30/contract.
2013 $19/contract.

2013 Partial Details
KC 2,638 contracts 74k net profit 100% winners all rode to expiration.
CL 1,646 contracts 67k net profit
ES 1,071 contracts 28k net profit

GC 185 contracts 57k net loss

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pag 196 + file excel

Right click on chart. Click on Select Data. Click on Add. Enter Series Name. Then click on the chart like icon at the end of Series Values and then highlight the daily prices for that year on your spreadsheet. Click enter. Do that for each year.

Attached is my page for CL V. To account for weekends so that each year is graphed the same the tables on the right include everyday not just trading days. The price on Friday is used for Sat & Sun by using Lookup.

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The important thing to keep in mind is that the margin required changes with the option strike price/month, and it changes on a daily basis.

So, for example, with October CL Puts right now from Options Express:

90 put (.02 delta) >> initial margin = $872.52
95 put (.07 delta) >> initial margin = $1886.28
99 put (.17 delta) >> initial margin = $2993.76

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| Ron, I was trying to build the graph as you have – distinct lines for individual years from a single spreadsheet which contains price data from several years. But I was not able to replicate your graph using the Graph Wizard in Excel 07. Would you be able to tell the steps you are using to built the graph? |

Barrington,

In excel use the pivot chart function.

Build your in a dynamic data list. One column Year, One column Day one Column price. This just past your year data into the long table. Then use Pivot table and or chart function to create the chart Ron has posted as a simple line chart. The key is to have the date column absent of a the Year and use the Year value as the series label.

Hope this helps or gives you some direction.

Cheers,
BlueRoo

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**Rolling Out of Trouble...Or Into More Trouble?**

With the recent surge in Soybeans, I thought I'd share with what I just did with some November Soybean Calls.

I sold some 1600 Calls last week, which with the 3x excess margin that Ron recommended, equated to about 18% of my equity (I like to target 15%, and I went a bit over on this one).

Friday the price of Beans soared 40 cents/bushel, and tonight (Sunday) it has risen another 45 cents or so.

My initial guess was that if on close of Monday, Beans stay up 45 cents, I'll still be OK with regards to the "Ron Loss Rule" (when increase in option price combined with increase in margin, takes away all your excess, it is time to exit). No need to exit yet.

BUT even so, I am not feeling good about the trade. My delta went from .04 to .12 or so - in less than 2 trading days. I'm feeling some heat.

So, I decided that instead of exiting the position completely, I would roll up to a higher strike price. My goal was to exit the 1600s with a loss, and sell enough 1800s to end up profit wise where I started (right after selling the 1600s).

I was able to do this, but at the expense of dedicating more margin to the trade (up to around 22%, from 18%). I guess there is no free lunch. I also am short more 1800s than I was 1600s.
 **Good news:** my delta is around .03 now **Good News:** if 1800s expire worthless, I'll still make money overall on the trade **Bad news:** I now am short more 1800s than I was 1600s, so if things go really bad, losses will multiply more quickly.

 **Anyhow, I thought I'd share this with you, in case you find yourself in a similar position. Rolling to deeper Out of the Money options may be a solution, if you don't want to outright exit. I do suspect, however, that most times the outright exit is the best option.**

Kevin,
It is the Bad News part that is the rub. I have been here before. I try not to roll like this any more. The first thing I do with any strangle I short is decide where I become a buyer ATM (next month). This is normally resistance or support. When one leg is threatened I consider becoming a buyer ATM. The critical point here is when it occurs in the cycle and how many DTE. This significantly effects how I think about what I might do. The second thing I do now is roll and spread. For example if I am threatened on the short call with 10 contracts I will look to buy it back and then do a new strangle short 10 puts and calls (in the same month). Again this is critically effected by DTE. As I try to focus on the last 30 DTE in most cases, if I get clear the first 7 to 10 days of a trade then these options above are viable when a position is threatened in my view. But I am not expert and I am always learning on the job even after doing this for a number of years.
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The other thing you can do so that you don't have to put on so many 1800 calls is add some puts. This also reduces margin.

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You can still put on the calls when it starts raining. Might make good amount of money in short time frame.

I might be doing that for my first grain trade of the summer.

Sometimes when you roll it is best to just wait for the best time to put on the further OTM strikes after you get out of what you have. The roll doesn't need to happen right away. Of course sometimes that will be wrong, but usually it is right more than wrong.

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| ROI%What we have done here is take the margin required to sell the option and added 2X that number for cash excess. Or simply 3X margin. That will give you 33% for margin and 67% for cash excess. For example if margin is $500 then you would have 500 margin and 1000 cash excess per contract.(Premium - fees) / (Margin \* 3) = Total ROI%To get a monthly number to compare contracts with different DTE you do this.(Premium - fees) / (Margin \* 3) / DTE \* 30 = Monthly ROI%One other way that I calculate ROI%, but I haven't shown in this thread, is to use the average margin for the option by taking beginning margin and exit margin and averaging the two. This shows a more precise ROI% if you are using the freed up margin and premium to add additional options while you still have on this position.(Beginning Premium - Ending Premium - fees) / ((Beginning Margin + Ending Margin) / 2 \* 3) = Total ROI%(Beginning Premium - Ending Premium - fees) / ((Beginning Margin + Ending Margin) / 2 \* 3) / DTE \* 30 = Monthly ROI% |
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| I have been trying to come to terms with the idea of very deep OTM and 60-90DTE compared to the approach the I currently take (OTM and 30DTE) and have posted previously. Ron and Kevin, would you be kind enough to comment on the following proposed CL Nov strangle, where the strikes are assigned, the premium, fees and the margin. My request to is try and further understand this approach. If possible would you answer the following questions from your experience.1. It is my perception which (could be wrong and please correct me) that with such a large number of contracts and such a small premium that the value of the trade moves around significantly. Could you provide you view of how the value of a trade and margin over such a long DTE fluctuates?See attached image. Those are 150 calls. Aug Sep & Oct. Because the strike is so far OTM and the delta is so low, the premium does not move significantly unless futures move significantly.2. Is the idea of such a Long DTE that it is more important to be deep OTM than to maximise time decay?Time decay happens at a higher DTE the further OTM the option is. So we are still maximizing time decay but being less risky because we are so far OTM.As you can see the posts in the group have sent me into a spin as I evaluate and question my adopted approach. This is a good opportunity for me to learn more about the key features of writing in terms of DTE and DOTM.Thanks in advance. |

The ROI is very good on that strangle. I get 8.5% monthly ROI if you ride it to expiration. (Note I'm using $198 each for margin. That is the correct OX number. 20% over SPAN. Their system does not calculate spread option margin correctly.)

Tip. Option premium erosion happens quicker on CL puts vs calls. So I usually leg into the strangle by putting the puts on 1st and then later the calls.