TD Ameritrade

Options for Volatility

Sample Investing Plans

Important Information

Options involve risks and are not suitable for all investors as the special risks inherent to options trading may expose investors to potentially rapid and substantial losses. Please read the previously provided copy of *Characteristics and Risks of Standardized Options* before investing.

Rolling and multiple-leg options strategies can entail substantial transaction costs, including multiple commissions, which may impact any potential return.

Keep in mind that short equity options can be assigned at any time regardless of the in-the-money amount.

Supporting documentation for any claims, comparison, statistics, or other technical data will be supplied upon request.

All investing plans and rules are provided for informational purposes only and should not be considered a recommendation of any security, strategy, or specific portfolio allocation. Investing plans and rules are provided for students to better understand how they may build their own plan that may best fit their own personal investing style. Carefully consider investment objectives, risks, and expenses before investing.

Past performance of a security does not guarantee future results or success.

Examples using real stock symbols are provided for illustrative and educational use only and are not a recommendation or solicitation to buy, sell, or hold any specific security.

ATM Long Calendar Spreads Sample Investing Plan

Options for Volatility

Objective

To capture potential increases in volatility in sideways-trending stocks or ETFs using a limited-risk strategy with multiple paths to potential profit.

Watch List Criteria

Underlying:

- This strategy typically works better with stocks and ETFs that have high daily trading volume and have been trending sideways.
- Consider relatively low-volatility instruments, such as indices or large-cap stocks, since they may be less likely to experience large price swings, even with potential increases in implied volatility.
- An underlying with an implied volatility in the lower half of its 52-week range has more potential for an increase in implied volatility than an underlying with already high volatility.

Options: Options with high trading volumes, large open interest, and narrow bid/ask spreads can make it easier to enter, and potentially exit, the trade at your desired price.

Sample Entry Rules

Short Option: With ATM long calendar spreads, the short option entry rules are generally the same for calls and puts.

> **Expiration**: Options that expire at least 20 – 40 days out can help you take advantage of time decay while also providing potential rolling opportunities.
>
> **Strike Selection**: For ATM long calendars, simply select an at-the-money option, or the one that's closest to the current price of the underlying.

Long Option: To create a calendar spread, select a long option of the same type (call or put) as the short option, at the same strike price, with a later expiration.

> **Expiration**: Options 60 – 120 days from expiration can provide more rolling opportunities for the short leg.

Money Management

- The debit paid to open this trade is your max loss or trade risk, which you can use to determine your position size.
- Consider limiting this type of trade to 1% – 2% of your active trading portfolio.

1% - 2% Portfolio Risk ÷ Max Loss = Number of Spreads

Sample Exit Rules

If the short option is in the money:

- Consider rolling the short option to an out-of-the-money strike (creating a diagonal).
- If the option is slightly in the money near expiration, and/or you think the underlying is going to continue trending sideways, consider rolling the short option to the same strike.
- If the option is deep in the money near expiration, and/or you think the underlying is going to stay below your strike price for a put spread or above your strike price for a call spread, consider closing the entire spread.

If the short option is out of or at the money:

- Consider rolling the option when its theta approaches zero, as that means it has lost most of its time value. This typically occurs when the option is less than 10 days from expiration.
- Consider rolling the option when it's between 75% to 85% of max profit.
- If the option is far out of the money, simply let the trade expire.

Keep in mind that short equity options can be assigned at any time regardless of the in-the-money amount.

The long option and closing the position: If you choose to roll the short option, your final roll will likely be to the same expiration as the long option. Consider closing the entire position when the long option is four to 10 days from expiration to reduce gamma risk that increases as the trade nears expiration.

If implied volatility spikes: Consider closing part of the position regardless of whether the trade is in or out of the money to potentially capture profits or mitigate losses while still keeping some spreads open. Remember that scaling out will incur additional transaction costs.

Routines

- Consider monitoring this position **daily** for any large moves in the underlying that could trigger a potential exit.
- Check positions **daily** as they approach expiration dates to be aware of potential assignment risk or to watch for exit possibilities.
- Consider referencing your watch list **weekly** for potential new entry opportunities and adjust it as needed.

Long Diagonal Spreads Sample Investing Plan

Options for Volatility

Objective

To capture potential increases in volatility in stocks or ETFs trading in a range using a limited-risk strategy with multiple paths to potential profit.

Watch List Criteria

Underlying:

- Consider stocks and ETFs that have high daily trading volume and that you have a slight directional bias on because this strategy typically works better when the underlying trades in a range.
- Consider relatively low-volatility instruments, such as indices or large-cap stocks, since they may be less likely to experience large price swings, even with potential increases in implied volatility.
- An underlying with an implied volatility in the lower half of its 52-week range has more potential for an increase in implied volatility than an underlying with already high volatility.

Options: Options with high trading volumes, large open interest, and narrow bid/ask spreads can make it easier to enter, and potentially exit, the trade at your desired price.

Sample Entry Rules

With long diagonal spreads, the short option entry rules are generally the same for calls and puts. If you're bullish on the underlying, consider a long call diagonal spread. If you're bearish, consider a long put diagonal spread.

Short Option:

> **Expiration**: Options with 20 – 30 days to expiration can help you take advantage of time decay while also providing potential rolling opportunities.
>
> **Strike Selection**: Though max profitability occurs when the short option is at the money, consider strikes with a delta between .30 – .40 if you anticipate the underlying will move in the direction of your delta.

Long Option:

> **Expiration**: Options 60 – 120 days or more from expiration can provide more rolling opportunities for the short leg.

Strike Selection:

- The wider the distance between the long and short strikes, the higher the trade's probability of success, but the greater the trade's risk, as the cost of the trade is likely to increase. Choosing a long strike that is two to five strikes away from the short strike can help balance these factors.
- A delta between .60 – .70 has a greater chance of expiring in the money than options with smaller deltas.

Money Management

- The debit paid to open this trade is your max loss or trade risk, which you can use to determine your position size.
- Consider risking no more than 3% of your active trading portfolio on each trade.

Sample Exit Rules

If the short option is in the money:

- Check to see if the underlying conditions still meet your criteria. If they do, consider rolling the short option to an out-of-the-money strike.
- If the underlying conditions don't meet your criteria, consider closing the position.

If the short option is out of or at the money:

- If you're within 10 days of expiration, consider rolling the short option to the same strike.
- If the option is far out of the money, simply let the trade expire.

Keep in mind that short equity options can be assigned at any time regardless of the in-the-money amount.

The long option and closing the position: If you choose to roll the short option, eventually your final roll will likely be to the same expiration as the long option. Here, you'd use the same exit rules as a long vertical spread.

If implied volatility spikes: Consider closing some spreads regardless of whether the trade is in or out of the money to capture profits or mitigate losses while still keeping some spreads open. Remember that scaling out will incur additional transaction costs.

Routines

- Consider monitoring open positions **daily** for any large moves in the underlying that could trigger a potential exit.
- Check positions **daily** as they approach expiration dates to be aware of potential assignment risk and to watch for exit possibilities.
- Consider referencing your watch list for potential new opportunities **weekly** and adjust it as needed.

Iron Condors Sample Investing Plan

Options for Volatility

Objective

To potentially take advantage of probability, time decay, and falling implied volatility using a neutral-trending stock or ETF.

Watch List Criteria

Underlying:

- Consider liquid stocks and ETFs with high daily trading volumes that you have a short-term neutral outlook on because this strategy typically works better when the underlying trades in a range.
- An underlying with implied volatility in the top half of its 52-week range may be more likely to experience falling volatility than an underlying that is already at the bottom of its range.

Options: Choosing options contracts with high trading volumes, large open interest, and narrow bid/ask spreads can make it easier to enter, and potentially exit, the trade at your desired price.

Sample Entry Rules

Expiration:

- Select options that expire 20 – 50 days from purchase.
- Avoid options that expire close to an earnings announcement or other events that may cause volatility to spike, as iron condors benefit from falling implied volatility.

Strike Selection:

Short Option:

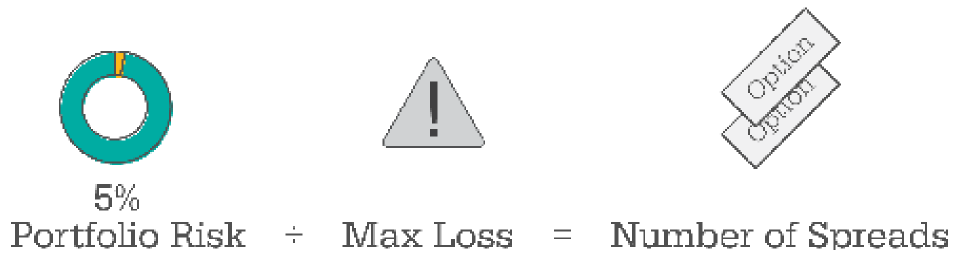
- For the short option, consider strikes with deltas of .20 – .30, as these have a higher chance of expiring worthless than options with higher delta.
- Consider using technical analysis in addition to probability. You might sell a short call at or above resistance and a short put at or below support.

Long Option:

- Weigh the cost of the option with your risk tolerance. More expensive long options can often shrink your potential max loss, but they can also shrink your potential profit.
- A classic iron condor has equidistant spreads: The long call strike is the same distance from the short call strike as the long put strike is from the short put.

Money Management

- Use the trade's potential max loss to determine your position size. Max loss for a balanced iron condor is the difference between the long and short strikes on either wing, minus the premium.
- While this strategy has a high probability of success, consider risking no more than 5% of an active portfolio.



Sample Exit Rules

If one of your short options is in the money, consider your time frame:

- 20+ days from expiration, consider doing nothing as this trade is designed, in part, to take advantage of time decay.
- 10 – 20 days from expiration, you might begin to scale out of the position.
- Four – 10 days from expiration, consider exiting the entire position.

If your short options are out of the money:

- Consider closing the trade four –10 days from expiration to reduce risk from potential volatility spikes or price moves as the trade nears expiration.
- Consider closing the trade when it's reached 75% to 85% of max profit.

Keep in mind that short equity options can be assigned at any time regardless of the in-the-money amount.

Routines

- Consider monitoring this position **daily** for any large moves in the underlying that could trigger a potential exit.
- Check positions **daily** as they approach expiration dates to be aware of potential assignment or to watch for exit possibilities.
- Consider referencing your watch list **weekly** for potential new entry opportunities and adjust it as needed.